

Credit Suisse's U.S. Top Picks

Investment Ideas that Lead

March 2021
Equity Research | Americas



This report features our analysts' most preferred Outperform- and Underperform-rated names, along with a snapshot of their investment thesis. In support of the analysts' views, we provide easy access to the financial data behind every name.

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Credit Suisse #1 Top Picks

Overview:

- 55 Top Ideas: We highlight 47 Top Outperform Ideas ([summary link here](#)) and 8 Top Underperform Ideas.

What is New?

- 6 New #1 Top Outperform: [MAS](#), [TPR](#), [EMR](#), [RADI](#), [AMZN](#), [CMCSA](#).
- 8 Top Underperform Ideas: [X](#), [WHR](#), [WSM](#), [NGL](#), [WU](#), [AXP](#), [CHRW](#), [IRM](#).
- 'High Conviction Calls': Our highest-conviction top picks include:
 - Outperform: AAP, AMZN, APTV, APO, ASH, CAT, CB, CCK, CHX, CMCSA, CMG, DHI, EMR, EOG, GPN, HSY, IBM. [Page 5](#).
 - Underperform: AXP, IRM, WHR, WSM. [Page 8](#).
- Credit Suisse HOLT®: We have included a HOLT® analysis on each of our #1 Top Picks.
- HOLT Valuation Gap: Screening top picks for the least and most demanding market expectations include:
 - Outperform: AAP, AMZN, APO, APTV, CCK, CHX, CMCSA, DHI, EMR, EOG, EW, GPN, HCA, HSY, IBM, INTU, MAS. [Page 6](#).
 - Underperform: IRM. [Page 9](#).
- 'Top of the Crop': Outperform-Rated Ideas. Our highest conviction combined with the least demanding market expectations. [Page 7](#). And our Underperform-Rated Ideas. Our highest conviction and widest valuation gap. [Page 10](#).

Methodology?

- "One-stop shop" for the research team's best ideas. Every US research analyst identifies their #1 top stock pick based on a 6- to 12-month time horizon. For each #1 name, we include: a short summary of our analyst's reasoning, a thesis, catalysts, debate, pushbacks, valuation, latest related research, and a relevant chart as a starting point for further analysis.
- Credit Suisse HOLT®: For each US research analyst's #1 top stock pick, we have worked with our partners in HOLT® to include a chart on Top Picks That Rank in Top 25% in HOLT®, [Page 71](#). And a Scorecard HOLT® Relative Wealth Chart. *See Appendix for more details, [Page 72](#).*
- 'High Conviction Calls': We assess the conviction level of CS analysts for their Top Outperform and Top Underperform picks by comparing their (i) EPS estimates (FY2) and (ii) target price estimates (12-month rolling) to consensus estimates. We measure the level of consensus bullishness by calculating the Net Consensus recommendation balance as: (Number of Buy recommendations – Number of Hold recommendations – Number of Sell recommendations) / Total Number of ratings.
- These top picks should not be viewed as portfolios; they are simply a current snapshot of the analysts' top picks in their coverage universes.

#1 Top Outperforms (OP)

BASIC MATERIALS	Ticker	Page #	FINANCIALS	Ticker	Page #	INDUSTRIALS	Ticker	Page #
Chemicals & Ag Sciences	ASH	12	Asset Managers / Retail Brokers	APO	33	Aerospace & Defense	SPR	50
Metals & Mining	TECK	13	Banks	JPM	34	Airfreight & Ground Transport	UPS	51
Packaging	CCK	15	Exchanges & Market Structure	TW	35	Airlines	LUV	53
CONSUMER	Ticker	Page #	Insurance – Life	VOYA	36	Auto & Auto Parts	APTV	54
Building Products	MAS +	16	Insurance – P&C / Brokers	CB	37	Electrical Equipment & Multi-Industry	EMR +	55
Gaming, Lodging & Leisure	VAC	18	Mortgage Finance	PFSI	38	Engineering & Construction	MTZ	56
Homebuilding	DHI	19	Payments, Processors, & FinTech	GPN	39	Machinery	CAT	57
Household Products & Beverages	MNST	20	Specialty Finance	SYF	41	SERVICES	Ticker	Page #
Packaged Food	HSY	21	HEALTHCARE	Ticker	Page #	Business Services	MCO	58
Restaurants	CMG	22	Biotechnology – Large Cap	REGN	43	TMT	Ticker	Page #
Retail: Hardlines	AAP	23	Biotechnology – SMID Cap	INSM	44	Communication Infrastructure	RADI +	60
Retail: Softlines & Global Brands	TPR +	25	Healthcare Facilities	HCA	45	Consumer Internet	AMZN +	61
ENERGY / UTILITIES	Ticker	Page #	Healthcare Technology & Distribution	TDOC	46	IT Hardware	IBM	62
Alternative Energy	NEP	26	Life Science Tools & Diagnostics	IQV	47	Semiconductors & Devices	MU	63
E&Ps	EOG	27	Managed Care	UNH	48	Software	INTU	64
Midstream & MLPs	TRGP	28	Medical Supplies & Devices	EW	49	Telecom & Media	CMCSA +	65
Oilfield Services & Equipment	CHX	30				Telecom & Networking Equipment	MSI	66
Oil & Gas Royalty Minerals	VNOM	31						
Utilities	VST	32						

+ New Top Pick

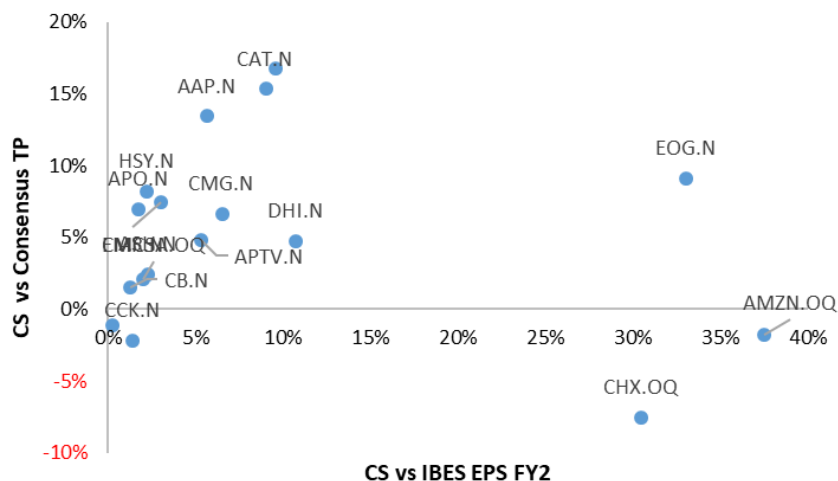


Top of the Crop ideas – ‘Out on a Limb’
Combined with HOLT Valuation

'High Conviction Calls'

Highest Conviction Outperform

CS EPS FY2 estimates vs consensus FY2 estimates (x-axis) and CS target price estimates vs consensus target price estimates (y-axis)



Highest conviction OP-rated ideas where consensus is not overly bullish

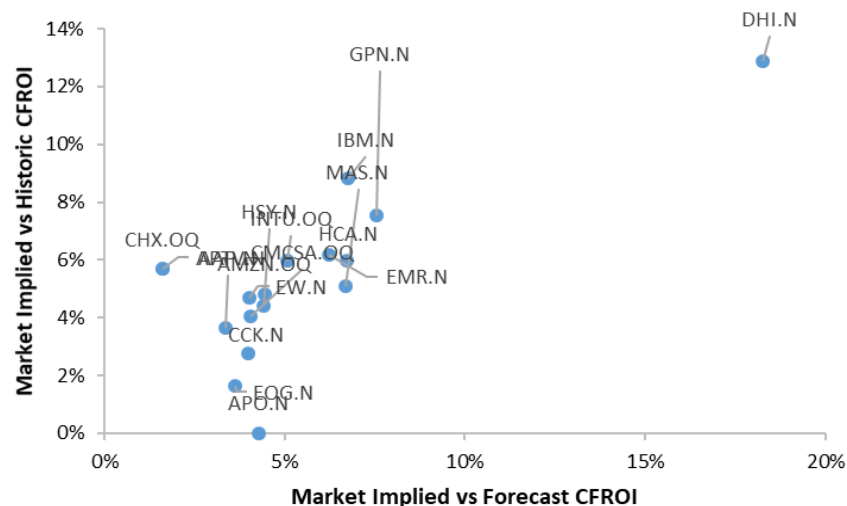
Ticker	Coverage	Market Cap (\$B)	TP (\$)	CS vs IBES EPS FY1	CS vs IBES EPS FY2	CS vs Consensus TP	Rating (Net Buy, %)
AAP.N	Retail: Hardlines (US)	10.7	202	1.2%	5.6%	13.4%	-22%
AMZN.OQ	Internet (US)	1,584.3	3,940	25.2%	37.5%	-1.8%	87%
APO.N	Asset Managers (US)	22.4	60	0.2%	1.8%	7.0%	13%
APTV.N	Autos & Auto Parts (US)	41.8	165	4.1%	5.3%	4.8%	24%
ASH.N	Chemicals (US)	5.2	103	0.3%	2.3%	2.4%	56%
CAT.N	Machinery (US)	118.9	235	-3.7%	9.0%	15.3%	-27%
CB.N	P&C Insurance (US)	75.3	175	4.2%	1.3%	1.5%	11%
CCK.N	Paper & Packaging (US)	13.3	120	0.0%	1.4%	-2.2%	80%
CHX.OQ	Oil & Gas Equipment & Services (US)	4.6	22	25.2%	30.5%	-7.5%	43%
CMCSA.C	Cable & Satellite (US)	249.1	61	-1.7%	2.0%	2.1%	56%
CMG.N	Restaurants (US)	41.8	1,760	3.2%	6.5%	6.7%	-13%
DHI.N	Homebuilding & Building Products (US)	28.2	100	5.4%	10.7%	4.7%	44%
EMR.N	Electrical Equipment & Multi-Industry (US)	53.1	101	-0.2%	3.0%	7.4%	-10%
EOG.N	Oil & Gas Exploration & Production (US)	37.9	80	35.1%	33.0%	9.1%	31%
GPN.N	Payments & Financial Technology (US)	59.7	220	-0.5%	0.3%	-1.2%	39%
HSY.N	Food / Agribusiness (US)	39.3	175	0.9%	2.2%	8.2%	-47%
IBM.N	IT Hardware / Telecom Equipment (US)	107.9	160	2.1%	9.6%	16.8%	-85%

Commentary: We assess the conviction level of CS analysts for their Top Outperform picks by comparing their (i) EPS estimates (FY2) and (ii) target price estimates (12-month rolling) to consensus estimates. We measure the level of consensus bullishness by calculating the Net Consensus recommendation balance as: (Number of Buy recommendations – Number of Hold recommendations – Number of Sell recommendations) / Total Number of ratings.

Source: Company data, Credit Suisse estimates

Outperform-Rated Top Picks With Least Demanding Mkt Expectations

Market implied vs Forecast CFROI® (x-axis) and Market-implied vs historic 5Y median CFROI (y-axis)



Top Outperform Picks with least demanding market expectations relative to forecast and historical CFROI

Ticker	Coverage	CFROI				
		CFROI 12M Fwd	CFROI Historic 5Y Median	CFROI Market Implied	CFROI Market Implied vs Forecast	CFROI Market Implied vs Historic
AAP.N	Retail: Hardlines (US)	8.5%	8.8%	5.2%	3.4%	3.7%
AMZN.OQ	Internet (US)	10.2%	10.6%	5.8%	4.5%	4.8%
APO.N	Asset Managers (US)	15.7%	11.5%	11.5%	4.3%	0.0%
APT.V.N	Autos & Auto Parts (US)	9.4%	13.4%	7.7%	1.6%	5.7%
CCK.N	Paper & Packaging (US)	12.6%	11.4%	8.7%	4.0%	2.8%
CHX.OO	Oil & Gas Equipment & Services (US)	9.4%	13.4%	7.7%	1.6%	5.7%
CMCSA.C	Cable & Satellite (US)	10.2%	10.2%	6.2%	4.0%	4.0%
DHI.N	Homebuilding & Building Products (US)	17.9%	12.5%	-0.4%	18.2%	12.9%
EMR.N	Electrical Equipment & Multi-Industry (L	16.4%	16.3%	10.2%	6.2%	6.2%
EOG.N	Oil & Gas Exploration & Production (U	1.5%	-0.4%	-2.1%	3.6%	1.6%
EW.N	Medical Supplies & Devices (US)	15.9%	16.5%	11.9%	4.0%	4.7%
GPN.N	Payments & Financial Technology (US)	25.4%	25.4%	17.9%	7.6%	7.6%
HCA.N	Health Care Facilities (US)	13.4%	12.7%	6.7%	6.7%	6.0%
HSY.N	Food / Agribusiness (US)	21.0%	21.0%	16.6%	4.4%	4.4%
IBM.N	IT Hardware / Telecom Equipment (US)	21.4%	23.4%	14.6%	6.7%	8.8%
INTU.OO	Software (US)	22.4%	23.4%	17.4%	5.1%	6.0%
MAS.N	Homebuilding & Building Products (US)	24.7%	23.1%	18.0%	6.7%	5.1%

Commentary: We assess the scale of built-in market expectations by calculating the difference between the market-implied CFROI and (i) the forecast CFROI (12-month forward) and (ii) the historical CFROI using the 5-year median.

Source: Company data, Credit Suisse estimates, HOLT

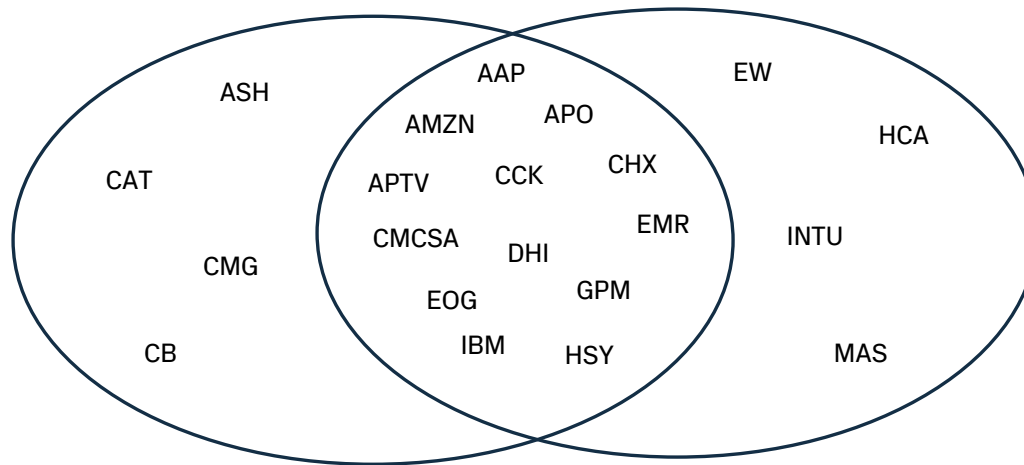
'Top of the Crop' Outperform-Rated Ideas

Highest Conviction Combined With Least Demanding Market Expectations

'Top of the Crop' Outperform Ideas:

High Conviction Calls:

Highest conviction Outperform ideas where CS analysts' estimates and target prices are above consensus and consensus is not overly bullish (see slide 5)



View Through HOLT:

Outperform ideas with least demanding market expectations: Market-implied CFROI is below (i) forecast CFROI and (ii) historical median (see slide 6)

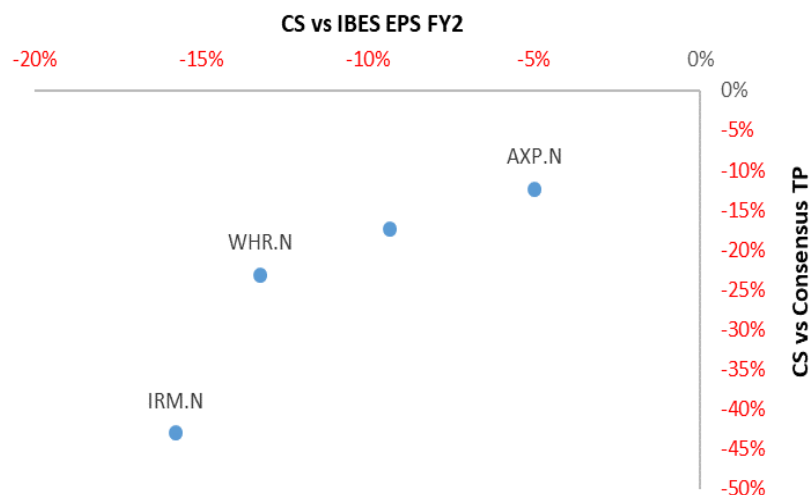
- The Top of the Crop Outperform ideas is a subset of our analysts' top picks which screen on our 'High Conviction Calls' analysis, while also exhibiting the least demanding market expectations on HOLT.
- We assess the conviction level of CS analysts for their respective top Outperform picks by comparing their EPS estimates (FY2) and their target price estimates (12-month rolling) to consensus estimates.
- We assess the scale of built in market expectations by calculating the difference between the market-implied CFROI and (i) the forecast CFROI (12-month forward) and (ii) the historical CFROI using the 5-year median.

Source: Company data, Credit Suisse estimates, HOLT

'High Conviction Calls'

Highest Conviction Underperform

CS EPS FY2 estimates vs consensus FY2 estimates (x-axis) and CS target price estimates vs consensus target price estimates (y-axis)



Highest conviction OP-rated ideas where consensus is not overly bullish

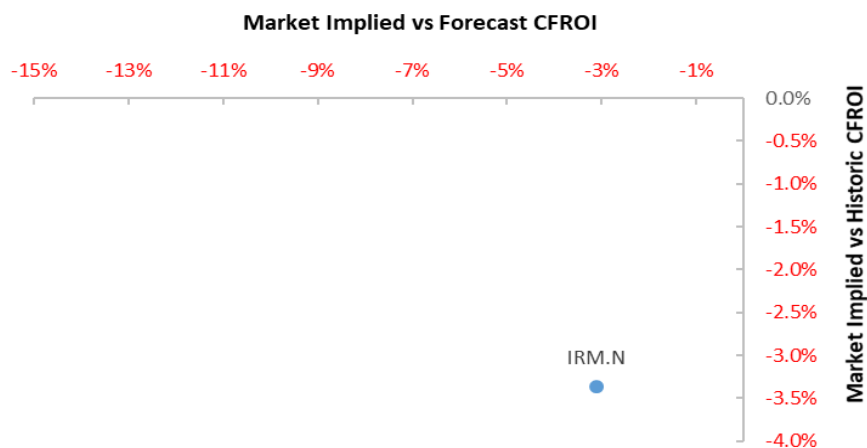
Ticker	Coverage	Market Cap (\$B)	TP (\$)	CS vs IBES EPS FY1	CS vs IBES EPS FY2	CS vs Consensus TP	Rating (Net Buy, %)
AXP.N	Multi-Line Banks / Consumer Finance (US)	109.0	115	-15.3%	-5.0%	-12.4%	-28%
IRM.N	Business & Professional Services (US)	10.0	18	9.1%	-15.8%	-43.0%	25%
WHR.N	Homebuilding & Building Products (US)	12.0	158	-2.1%	-13.2%	-23.1%	-40%
WSM.N	Retail: Hardlines (US)	10.1	95	4.2%	-9.3%	-17.5%	-80%

Commentary: We assess the conviction level of CS analysts for their Top Outperform picks by comparing their (i) EPS estimates (FY2) and (ii) target price estimates (12-month rolling) to consensus estimates. We measure the level of consensus bullishness by calculating the Net Consensus recommendation balance as: (Number of Buy recommendations – Number of Hold recommendations – Number of Sell recommendations) / Total Number of ratings.

Source: Company data, Credit Suisse estimates

Underperform-Rated Top Picks With Most Demanding Mkt Expectations

Market implied vs Forecast CFROI® (x-axis) and Market-implied vs historic 5Y median CFROI (y-axis)



Top Underperform Picks with most demanding market expectations relative to forecast and historical CFROI

		CFROI	CFROI	CFROI	CFROI
		CFROI	Historic 5Y	Market	Market Implied
IRM.N	Business & Professional Services (US)	10.0%	9.8%	13.2%	-3.1%
					-3.4%

Commentary: We assess the scale of built-in market expectations by calculating the difference between the market-implied CFROI and (i) the forecast CFROI (12-month forward) and (ii) the historical CFROI using the 5-year median.

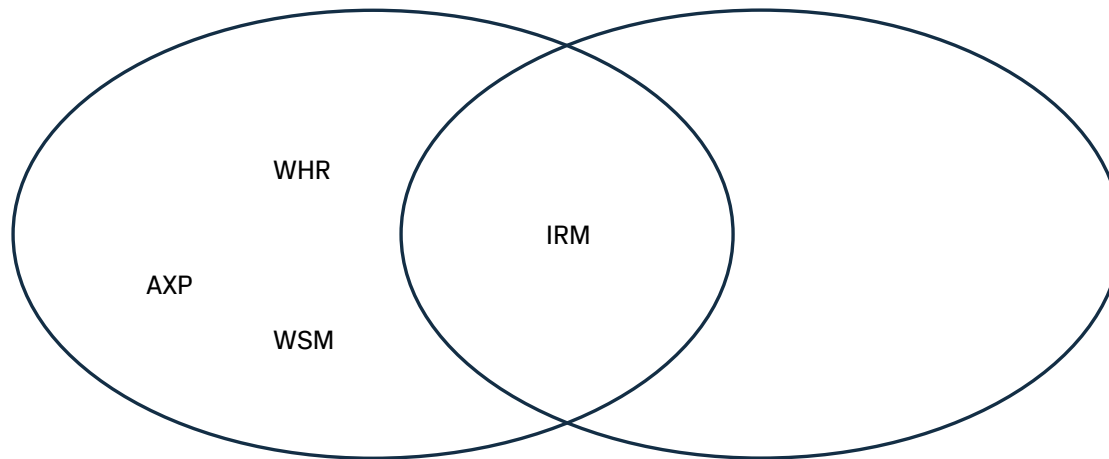
Source: Company data, Credit Suisse estimates, HOLT

'Top of the Crop' Underperform-Rated Ideas

Highest Conviction and Widest Valuation Gap

'Top of the Crop' Underperform Ideas:

High Conviction Calls:
Highest conviction Underperform ideas: CS analysts' estimates and target prices below consensus and the stocks are among the least highly rated (see slide 8)



View Through HOLT:
Underperform ideas with most demanding market expectations: Market implied CFROI is above (i) forecast CFROI and (ii) historical median (see slide 9)

- The Top of the Crop Underperform ideas is a subset of our analysts' top picks which screen on our "High Conviction Calls" analysis while also exhibiting most demanding market expectations on HOLT.
- We assess the conviction level of CS analysts for their respective top Underperform picks by comparing their EPS estimates (FY2) and their target price estimates (12-month rolling) to consensus estimates.
- We assess the scale of built in market expectations by calculating the difference between the market-implied CFROI and (i) the forecast CFROI (12-month forward) and (ii) the historical CFROI using the 5-year median.

Source: Company data, Credit Suisse estimates, HOLT

Top Ideas by Sector / Industry

Basic Materials Chemicals & Ag Science Ashland Global Holdings, Inc. (ASH.N)

更多资料，欢迎访问 www.wenku120.com

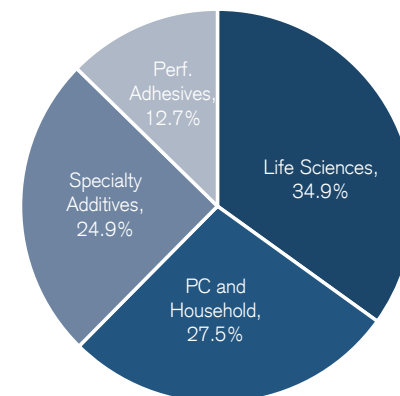
Chris Parkinson

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ASH – Rating: Outperform | Target Price: \$103 | Market Cap: \$5.19B | Current Price: \$85.59

- INVESTMENT THESIS:** Our bull thesis is underscored by: (1) ASH business realignment driving mix improvement and market share gains (enhanced focus / capital allocation), (2) ASH has ample cost-cutting opportunities (CSe >\$25mm incremental cost-actions in FY21 and beyond), (3) ~3-5% LT sustainable organic growth, and (4) improving FCF conversion (CSe +/- 55% EBITDA FY22 onwards) providing future capital deployment opportunities. We believe capital allocation focus will remain on buybacks (opportunity in the intermediate term) and eventually M&A (Pharma, PC and Coatings).
- CATALYSTS:** Cost-cutting execution, building PC&H platform momentum (skincare & sanitizers, w/ improvements in sun care), margin expansion (CSe materially >25% target) and improving FCF conversion (CSe >50% in 2021, 55%+ in 2022) – our est's imply +/- \$5/shr of FCF in FY21.
- DEBATE / PUSHBACK:** Belief consumer portfolio is “sub-par” and line losses are systematic, FCF conversion will remain <50% limiting capital allocation opportunities, industrial portfolio is “full of” cyclical business with low-single digit LT growth potential, and cost-opportunities are overstated.
- OUR VIEW:** ASH has shown its ability to quickly realign business functions from a vertical to horizontal structure which is driving mix improvement and will drive cost improvement / ROIC accountability (changes in comp structure will be supportive). ASH continues to execute on cost-cutting opportunities and improving FCF conversion will enable future investment optionality.
- VALUATION:** Our \$103 target price and Outperform rating for ASH are based on ~12x our 2023 EBITDA, discounted back. Key Risks: (i.) prolonged COVID-19 shutdown, (ii.) slow cost execution, (iii.) I&S margins, and (iv.) FX.
- LATEST RESEARCH REPORTS:**
 - [ASH: Why the Schulke & Mayr GmbH Deal Matters to the Future of ASH – Strategic Perspectives](#)
 - [ASH: Potentially the Best GARP Story in Chems - TP to \\$94 on Better PC / Coatings & Adhesives Outlook](#)
 - [ASH: Too Compelling to Ignore at Current Levels. Significant Upside Potential Remains in FY21](#)
 - [Sometimes Investors Deserve to Have Their Faith Rewarded – And this is the Beginning...](#)
 - [CEO Meetings Key Points: Even in a COVID-19 World, the Building Blocks of a Specialty Chemical Platform are Now Coming Together](#)
 - [Breaking Down and Rebalancing Model by End Market – ASI Defensibility Should be Evident](#)
 - [More Than Just a Cost Cutting Story - Playing Defense w/ Pharma & PC - Lots of Optionality](#)

CSe 2021E ASI EBITDA



ASH Margin Sensitivity by End-Market (CSe FY21)

Segment	% of Sales	CSe Segment Margins		
		Low	High	Average
Pharma	17.0%	32.0%	37.0%	34.5%
Personal Care	23.0%	25.0%	30.0%	27.5%
Nutrition	8.0%	17.0%	22.0%	19.5%
Coatings	15.0%	24.0%	29.0%	26.5%
Adhesives	15.0%	19.0%	24.0%	21.5%
Pharmachem	8.0%	10.0%	15.0%	12.5%
Industrial (Construction, Energy, other)	14.0%	11.0%	16.0%	13.5%
Total	100.0%	21.3%	26.3%	23.8%

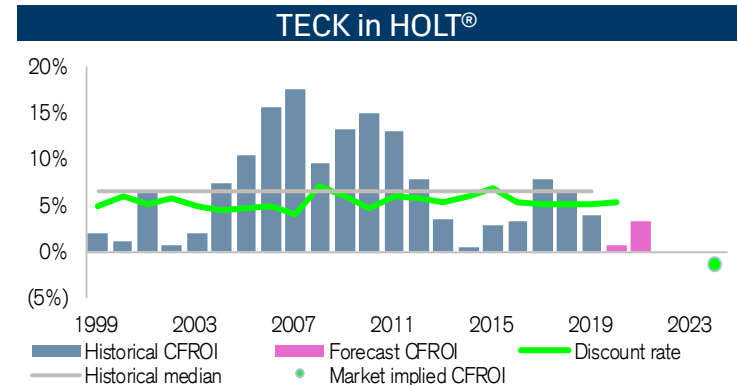
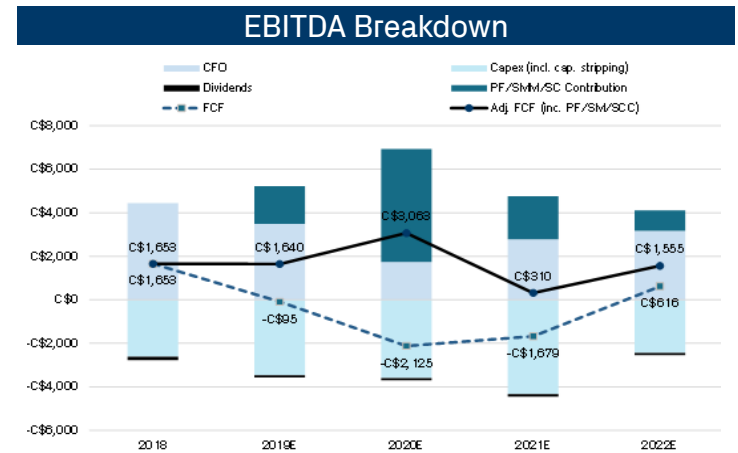
Source: Company data, Credit Suisse estimates

Basic Materials Metals & Mining Teck Resources (TECKb.TO)

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TECK – Rating: Outperform | Target Price: C\$34 | Market Cap: C\$13.93B | Current Price: C\$26.63 [TECK in HOLT®](#)

- WHY IS THIS OUR #1 TOP PICK? We believe Teck has all the critical factors to support revaluation in the medium term. Teck has a compelling, capital-efficient copper growth story that will pivot the earnings mix away from lower multiple coal. Teck has an operational turnaround story in coal as strip ratios decline and transportation costs benefit. The stock has derated from capex escalation, macro concerns, and coal cost inflation and we view sentiment as near a trough.
- INVESTMENT THESIS:** There are multiple reasons we like TECK – 1) Coal is at Inflect Point: We believe mid-cycle LV HCC is value near \$160/tonne based on seaborne quality adj. cost curves and Chinese arbitrage. Teck is set to see significant margin gains in coal (ASP constant) as the Neptune terminal adds C\$160mm, the Elkview mix shift adds C\$150mm, and lower strip ratios add C\$50mm; 2) Substantial Copper Volume Growth: Teck has the most copper growth pipeline relative to any other large diversified mining company in the world. Teck copper production is set to double from 301kt in 2019 to ~600kt in 2023 once QB2 is fully ramped up; and 3) Liquidity Remains Strong: TECK currently maintains C\$6.8bn of liquidity, including ~C\$400mm in cash. With no significant debt maturity before 2035 and no major funding needed from TECK for QB2 till 1H21, we believe the company is well positioned to weather the near term market challenges.
- CATALYSTS:** Key catalysts could be updates on QB2 project development, improving met coal market outlook, and any update on non-core asset sale (Project Satellite).
- DEBATE / PUSHBACK:** Key Investor concerns have been around QB2 capex escalation and coal cost inflation.
- OUR VIEW:** We believe QB2 provides very capital efficient copper unit growth over the next decade with low Opex+Sustain costs of ~1.38/lb for the first 10 years and at current share prices we believe the market is awarding negligible NAV for the project. Coal operating costs should come down now that the shift from Cardinal River to Elkview is completed and Neptune terminal is operational.
- VALUATION:** We see TECK as the most undervalued mining stock and believe current valuation provides an optimal entry point. Teck trades at deep discount to mid-cycle NAV valuation and P/FCF. On a normalized 2023 estimates, FCF yield is ~25%. Our C\$26 TP is derived using our SOTP framework. Key risks are prolonged downturn in steel production and global copper demand from current deep recession levels.
- LATEST RESEARCH REPORTS:**
 - [TECK: The Three Pillars of Mining Alpha Generation – Teck Well Positioned, Reit. OUTPERFORM](#)



HOLT®: Market implied expectations are very negative for TECK as they are pricing for returns on capital to be negative in the long term.

Source: Company data, Credit Suisse estimates, Credit Suisse HOLT

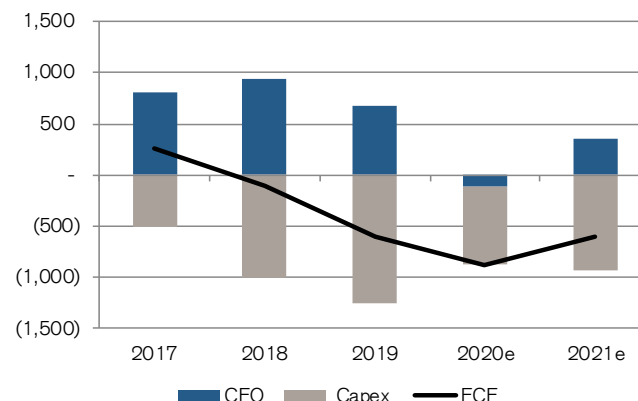
United States Steel Corp. (X.N)

X – Rating: Underperform | Target Price: \$15 | Market Cap: \$4.8B | Current Price: \$18.30

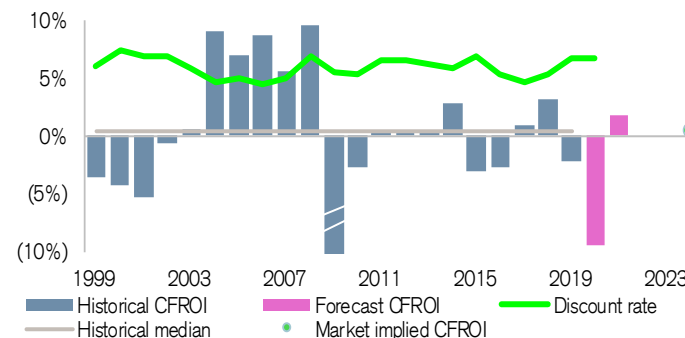
[X in HOLT®](#)

- **WHY IS THIS OUR #1 TOP PICK?** The step-function rise in unit costs over the past several years coupled with loss of automotive share suggests X is in a weaker competitive position versus peers entering the “Sheet Tsunami” period in the US from 2021-2022.
- **INVESTMENT THESIS:** US Steel is facing clear challenges to its business model. The immediate and unexpected decline in revenue leaves companies with high financial and operational leverage in a difficult spot. In the short run, there is the need to idle facilities and cut costs, but blast furnace operations have high fixed costs. In past two years, X spent a total of \$4.3bn on capital and maintenance/outage expense, a substantial increase from \$2.8bn seen in 2015-16, which begs the question whether X will ever get adequate ROI on this spend given its history of unplanned outages, loss in auto, and unexpected reinvestment spend.
- **CATALYSTS:** Lower auto contract prices in 2020/21, structural shift towards electric vehicles and increasing aluminum penetration.
- **DEBATE / PUSHBACK:** Source of funding for the major capex commitments over the next few years? Will X deliver on conversion cost improvements? The pushback will be that the asset revitalization program should help in cost reduction and improving profitability. Valuation looks compelling post share price decline.
- **OUR VIEW:** We expect further share price decline driven by declining profitability (Volume / ASP pressures) and increasing balance sheet risks.
- **VALUATION:** Our target price of \$15 for X, which helps drive our Underperform rating, is based on a blended 2022/23 EV/EBITDA of ~5.4x (pension adj). Risks include, mainly, higher-than-expected prices for hot rolled coil and a slower-than-expected unwind of US sheet capacity slated to come online over the next three years.
- **LATEST RESEARCH REPORTS:**
 - [X: Reiterate UP on Significant Free Cash Burn and Capital Needs for Big River / Mon Valley](#)
 - [X: The Perfect Storm For Steels: US Recession, Energy Paradigm Shift, & Sheet Tsunami](#)

Declining FCF Trend



X in HOLT®



HOLT®: X has been earning returns on capital below cost of capital since 2009, consensus is forecasting negative profitability while the market is pricing near zero returns.

Source: Company data, Credit Suisse estimates, Credit Suisse HOLT

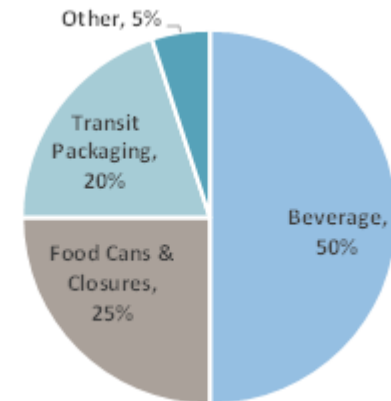
Basic Materials Packaging Crown Holdings (CCK.N)

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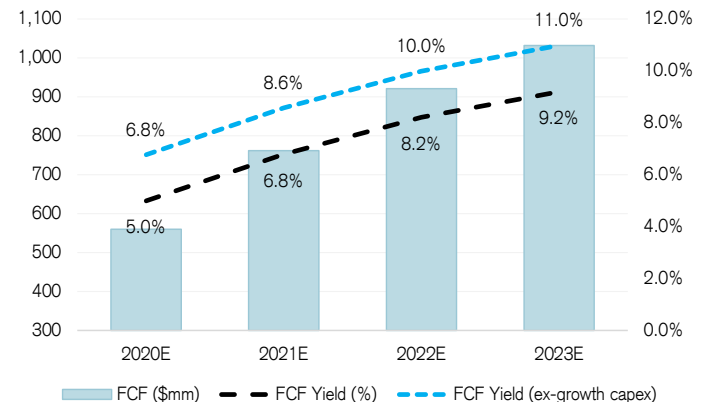
CCK – Rating: Outperform | Target Price: \$120 | Market Cap: \$13.27B | Current Price: \$98.37

- **WHY IS THIS OUR #1 TOP PICK?** We believe Crown, the #2 market player within the global beverage can industry, has a strong case for valuation re-rating driven by robust growth in attractive US beverage can market, improving FCF generation, deleveraging balance sheet and upside optionality from ongoing strategic portfolio review.
- **INVESTMENT THESIS:** We believe Crown has a strong case for valuation re-rating driven by high-margin growth in Americas beverage can market, improving free cash flow (FCF) generation, deleveraging of the balance sheet and upside optionality from ongoing strategic portfolio review. The beverage growth story is compelling, and the other businesses have attractive thru-cycle FCF generation albeit without much growth. Thus, we see it likely CCK accelerates its mix shift to can by divesting lower growth / multiple businesses, which will allow for faster deleveraging and help fund further growth capital required in can through 2024 in our view. As it stands currently, CCK should enable dividend payments in 1H-21 as Phase I of can growth starts to convert to FCF.
- **CATALYSTS:** We believe there is strong likelihood CCK will announce plans to divest lower multiple businesses (likely Signode in our view), accelerate growth in beverage cans, and become a dividend growth play in the next 6-12 months, which we argue would be a material positive catalyst for the stock. Other key catalyst would be beverage can capacity expansion over next few years.
- **DEBATE / PUSHBACK:** Key Investor concerns have been around CCK's ability / willingness to divest its non-can business.
- **OUR VIEW:** As per our conversations with the management, CCK has been clear that nothing besides beverage is sacred cow within the portfolio and that CCK could consider selling any of the non-beverage segments. We believe the Signode acquisition in hindsight was dilutive for CCK valuation on a multiple basis and Covid exacerbated equity underperformance given cyclical nature of transit packaging. In our perhaps panglossian view of the strategic review outcome, would be for CCK to rival Ball as a more pure play beverage can story and at very least divest Signode, which already operates as stand-alone segment. Given the 4-5 year visibility in can growth and CCK's dire need to increase its specialty mix and de-lever, asset sales are likely in next 6-12 months in our view.
- **VALUATION:** Our Outperform rating and \$120 TP are based on a 2022 sum-of-the-parts (SOTP) analysis framework with EV/EBITDA target multiple of ~10.9x. Key risks include new project execution, excess beverage can supply, lackluster growth in EU food, and a stronger USD given high international sales.
- **LATEST RESEARCH REPORTS:**
 - [CCK: US Packaging – Beverage Cans Initiation; Assuming Coverage at Outperform](#)

Revenue By Products



Improving FCF Generation



Source: Company data, Credit Suisse estimates

US Homebuilding & Building Products

Building Products

Masco (MAS.N)

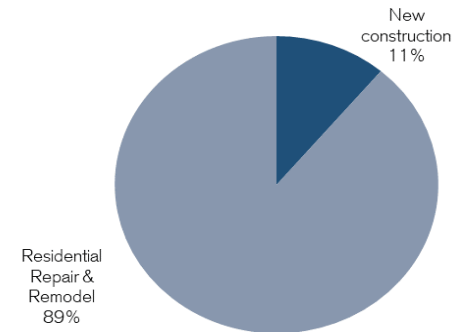
Adam Baumgarten
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MAS – Rating: Outperform | Target Price: \$75 | Market Cap: \$14B | Current Price: \$54.48

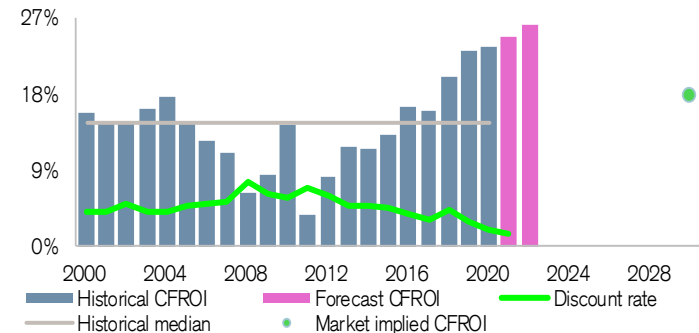
[MAS in HOLT](#)

- WHY IS THIS OUR #1 TOP PICK?: Masco has the highest residential remodel exposure, sells largely small ticket items such as faucets and paint, generates very stable margins through the cycle, and benefits from raw material deflation. MAS also ranks the highest on our proprietary BPQS ranking.
- INVESTMENT THESIS: We expect growth in US residential repair & remodel to remain elevated in 2021/2022 and see the recent strength in DIY trends as sustainable on the back of a pick-up in existing home sales and home price appreciation. We also view the company's updated business strategy on capital deployment (more M&A, share repurchase) as positive.
- CATALYSTS: DIY paint demand trends in 2Q21 – continued growth would be a significant positive for shares as comps are very tough. Additional acquisitions would also be well received.
- DEBATE / PUSHBACK: Margins may have peaked in 2020, DIY paint demand is not sustainable at these levels, residential spending is bound to moderate as vaccines are distributed.
- OUR VIEW: With shares trading at ~10x consensus FY22 adj. EBITDA, consistent with long-term averages despite a much better mix of businesses and a more defensive growth, margin, and FCF profile, we see risk/reward as attractive at current levels.
- VALUATION: Our target price of \$75 applies a multiple of 12.6x multiple to our FY22 adj. EBITDA of \$1,585m. Our Sum-of-the-Parts analysis, based on publicly traded comps, actually yields a valuation of ~\$79. Masco currently trades at multiple of ~10x consensus FY22 adj. EBITDA. Downside risks include a spike in raw material costs, slowdown in DIY paint growth, and weakness at Kichler.
- LATEST RESEARCH REPORTS:
 - [Masco – Paint and Plumbing on Sale, Valuation Attractive; TP to \\$75](#)
 - [Masco Initiation – Behr in Mind that Quality Matters](#)
 - [Industry Report - Markets Matter and Quality Counts](#)

MAS has high repair & remodeling exposure



MAS in HOLT®



HOLT®: Consensus forecasts returns on capital at historic highs. The market expectations are very conservative, not giving credit to the expected growth in US residential repair and the company's updated business strategy.

Source: Company data, Credit Suisse estimates, Credit Suisse HOLT

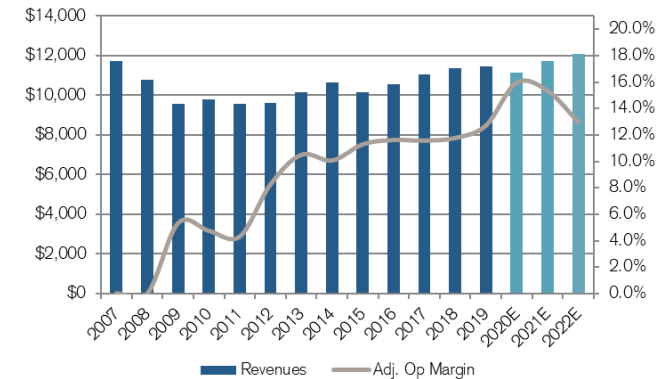
Consumer Building Products Whirlpool (WHR.N)

Adam Baumgarten
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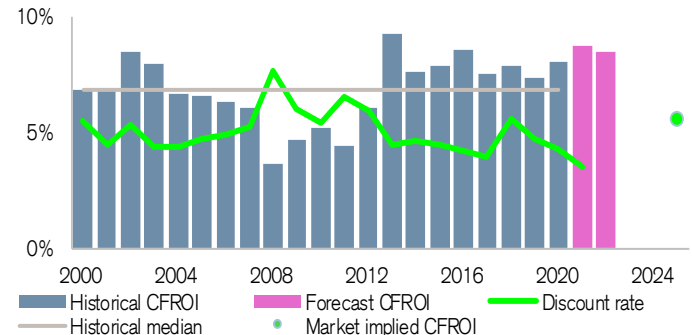
WHR – Rating: Underperform | Target Price: \$158 | Market Cap: \$12.45B | Current Price: \$197.7 [WHR in HOLT®](#)

- **WHY IS THIS OUR #1 TOP PICK?:** Whirlpool stock performance has been driven by factors that are temporary and will be short lived. Once the pandemic recedes and supply chains normalize, we expect North America margins to decline.
- **INVESTMENT THESIS:** WHR's high N.A. margins have been driven by strong demand, cost cutting and a strong pricing environment, supported by COVID related supply chain disruptions. We see WHR achieving peak margins in FY21/ FY22, after which demand will normalize and promotions/discounts will return to a more normalized levels.
- **CATALYSTS:** A normalization of supply chains and increased product availability will lead to increased competition and a more aggressive promotional environment.
- **DEBATE / PUSHBACK:** In the near term, supply chain disruptions continue and demand remains very strong, driven largely by the pandemic; therefore, the company will be able to keep margins elevated through at least 1H21.
- **OUR VIEW:** We acknowledge that near term margins remain strong, but at some point the market will anticipate a normalization of margins, which will lead to a re-rating to a lower valuation.
- **VALUATION:** WHR's valuation multiple is in line with the levels seen over the last 5 years (~7.7x based on EV/ EBITDA FY22), but that valuation multiple is based on peak margins/earnings. We expect downside from a decrease in EBITDA as costs come back and price competition intensifies. Risks include continued supply chain disruption, stronger-than-expected demand and stronger-than-expected prices.
- **LATEST RESEARCH REPORTS:**
 - [FY21 Preview: Attractive Quality at Reasonable Price](#)
 - [U.S. Building Products Channel Checks: North America Appliances](#)
 - [Good on the Margin](#)

WHR North America Historical Adj. Op Margins



WHR in HOLT®



HOLT®: Consensus forecasts returns on capital higher than 2020 level, while the market is implying a decline from that level, in line with our views that margins will decline.

Source: Company data, Credit Suisse estimates, Credit Suisse HOLT

Consumer Gaming, Lodging & Leisure Marriott Vacation Worldwide Corporation (VAC.N)

Ben Chaiken

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VAC – Rating: Outperform | Target Price: \$201 | Market Cap: \$7.2B | Current Price: \$175.09

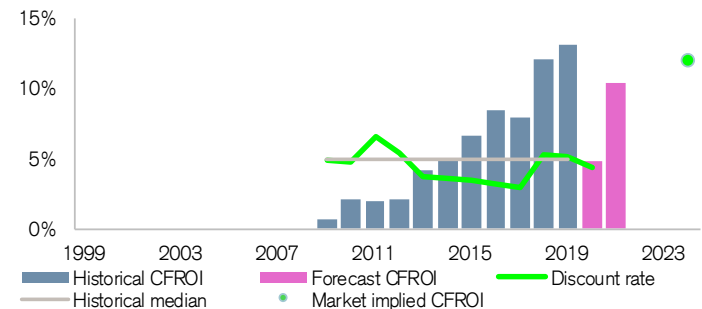
[VAC in HOLT®](#)

- WHY IS THIS OUR #1 TOP PICK?
 - VAC is one of the most compelling names in our coverage, with multiple pillars of growth over the next three years, including cost savings (from both the ILG acquisition, as well as new areas), pent-up demand, and the recent Welk acquisition. This is in addition to the strong core growth story functioning prior to COVID. Our 2022 EBITDA estimate of ~\$1,040m is \$230m above consensus.
- INVESTMENT THESIS:
 - Management raised their synergy/cost savings target from \$125m to \$200m+. As a result, we see material upside to 2022 estimates. Excluding Welk, we think investors could see >\$900m in EBITDA vs FY '22 consensus of \$810m.
 - Further, we expect COGS as a % of revenue will come down over the next 2 years as VAC is able to acquire more low cost inventory given higher defaults due to COVID-19.
 - We believe the recent Welk acquisition can add ~\$70m in EBITDA by 2023. Further, we see upside from deploying the call/digital transfer to the Hyatt Loyalty base of 16m members, a tactic that has been a driving force behind growth at legacy MVW and the Marriot Rewards member base.
- CATALYSTS: 4Q20 Earnings, further vaccine headlines.
- DEBATE / PUSHBACK: Many view timeshare as a highly cyclical business, that is reliant on destinations that will take a long time to recover. We disagree.
- OUR VIEW: During the pandemic, VAC and timeshare as a whole has shown its resiliency, through highly recurring revenue streams like financing and exchange. We think this performance has been better than expected and could lead to multiple expansion.
- VALUATION: :Our \$201 Target Price is based on 10.5x EV/EBITDA Multiple on 2022E EBITDA. Our Outperform rating is a based on return expectations over the next 12 months, relative to HGV and WYND. Risks include traditional leisure risks including consumer health and exogenous events, the impact of COVID-19, and financing income is dependent on favorable asset-backed security markets.
- LATEST RESEARCH REPORTS:
 - [VAC 4Q Preview](#)
 - [VAC: 4Q Update](#)

2022E EBITDA Build



VAC in HOLT®



HOLT®: VAC has seen consistent rise in returns in the past years. Market expectations indicate a decline in profitability from LFY levels, which we believe is conservative.

Source: Company data, Credit Suisse estimates, FactSet, Credit Suisse HOLT

Consumer US Homebuilding D.R. Horton (DHI.N)

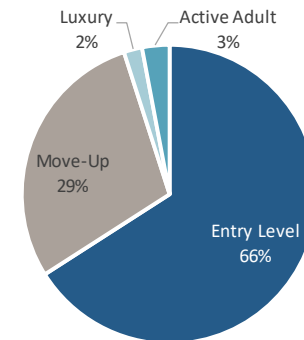
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DHI – Rating: Outperform | Target Price: \$100 | Market Cap: \$28.2B | Current Price: \$77.64

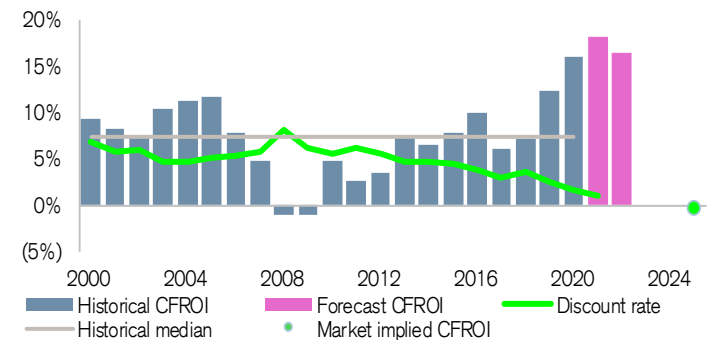
[DHI in HOLT®](#)

- WHY IS THIS OUR #1 TOP PICK? D.R. Horton is a best in class operator with the highest exposure to entry level homebuyers, lowest debt leverage, and least on-balance sheet land risk. DHI is the largest homebuilder by volume in the United States and is best equipped to weather a downturn.
- INVESTMENT THESIS: DHI order growth should outperform the broader market due to DHI's high exposure to the entry level price point, representing 66% of closings. We prefer builders with high entry level exposure due to the strong growth outlook, pent-up demand, and positive demographic and migration trends.
- CATALYSTS: January new home sales and 2Q21 earnings.
- DEBATE / PUSHBACK: Affordability concerns have become a focal point as builders raise prices to combat input cost inflation. DHI's high entry level exposure limits its pricing power due to the sensitivity of the entry level buyer to affordability, which could put gross margin targets at risk.
- OUR VIEW: Given pent-up demand from millennials and resilient employment trends at the higher income buckets (majority of home buyers earn >\$75k in annual household income), we would expect entry level demand to remain healthy.
- VALUATION: Our \$100 target price is based on 2.0x our FY22E book value/share (BV/sh), a premium to the sector and long-term trends given DHI's exceptional entry-level positioning and strong balance sheet. Downside risks: disruptions from COVID19, input cost inflation, higher interest rates.
- LATEST RESEARCH REPORTS:
 - [Plenty of Capacity to Grow Further; TP to \\$100](#)
 - [US Homebuilders: This Land is Your Land, and This Land is My Land](#)
 - [Best in Breed: Raising TP to \\$88](#)
 - [Everything's Bigger in Texas](#)
 - [DHI Initiation: Entry Level Prices, Texas-Sized Returns](#)
 - [Industry Report: Can't Live in Your Parents' Basement Forever](#)

D.R. Horton's Buyer Segment Exposure



DHI in HOLT®



HOLT®: DHI's returns on capital peaked in 2020 while consensus forecasts suggest further improvement, yet the market seems pessimistic as it is pricing zero profitability in the future.

Source: Company data, Credit Suisse estimates, Credit Suisse HOLT

Consumer Household Products & Beverages

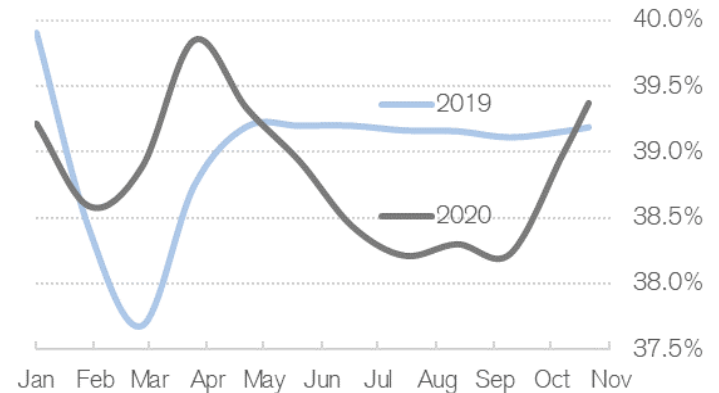
Monster Beverage Corporation (MNST.OQ)

Kaumil Gajrawala
kaumil.gajrawala@credit-suisse.com
(212) 325-3227

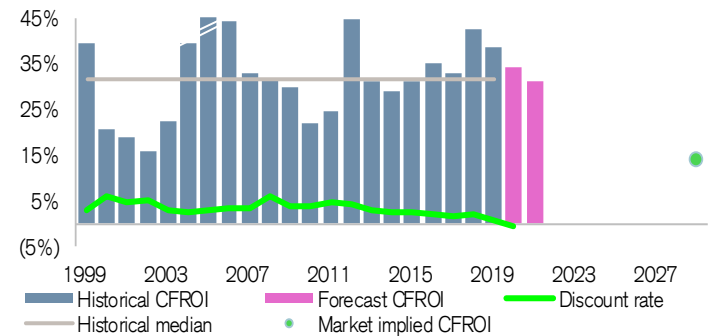
MNST – Rating: Outperform | Target Price: \$115 | Market Cap: \$46.2B | Current Price: \$87.55 [MNST in HOLT®](#)

- WHY IS THIS OUR #1 TOP PICK? Monster is a bit of COVID-recovery play as roughly 70% of its sales are in convenience stores, a channel heavily impacted by lack of population mobility. Yet MNST shares have lagged both the consumer staples and the broader S&P indices despite a business fundamentally stronger and set up for a banner 2021, in our view.
- INVESTMENT THESIS: A retooled retail execution team is helping drive share gains in the US. Monster has robust innovation pipeline ahead, including beyond core energy. Company is likely to benefit from disruption caused by the PepsiCo-Bang disagreement. The international energy drinks market represents substantial growth and profit opportunity.
- CATALYSTS: (1) Bi-weekly sales and market share trends in U.S. tracked channels (Nielsen); (2) 2021 product innovation likely to expand further into fitness energy (beyond Reign) and possibly into alcohol (spirits-based); (3) Investor meeting and business update held annually in early January; (4) Capital allocation—nearing \$2bn in cash, no debt, and no capital needs.
- DEBATE / PUSHBACK: (1) Red Bull gaining share during the pandemic; (2) PepsiCo could be stronger competitor with Rockstar ownership and Mt Dew unleashed; (3) Monster entering new categories with many well-funded players; (4) High multiple stock.
- OUR VIEW: (1) Category dynamics have been robust, with US energy drink sales growing at low-DD% rates; (2) Lower competitive threat from Bang; (3) New Monster innovation beyond core energy could create new leg of growth; (4) Best-in-class topline growth and ROIC profile among consumer staples, with significant international runway.
- VALUATION: Our \$115 target price and Outperform rating are based on 35x our 2024 EPS estimate of \$4.13 discounted at 8%. Our target multiple reflects Monster's high-return-on-capital business and our expectation for above-consensus top-line and EPS growth over the next few years. MNST has traded at a five-year average multiple of 31x forward earnings (range of 28-34x within one standard deviation). Risks include weakness in c-stores, shifting consumer tastes, proliferation of alternative functional beverages.
- LATEST RESEARCH REPORTS:
 - [Industry Mainstreaming & Channel Expansion Key Growth Drivers for 2021](#)
 - [Well-Balanced Delivery from a High-Growth Company](#)

Monster U.S. Market Share Trends Have Reversed



MNST in HOLT®



HOLT®: MNST has historically generated very high returns on capital. Market expectations imply a decline in returns on capital well below historical median levels and near term consensus forecasts.

Source: Nielsen xAOC+Conv., Credit Suisse research, Credit Suisse HOLT

Consumer Packaged Foods The Hershey Company (HSY.N)

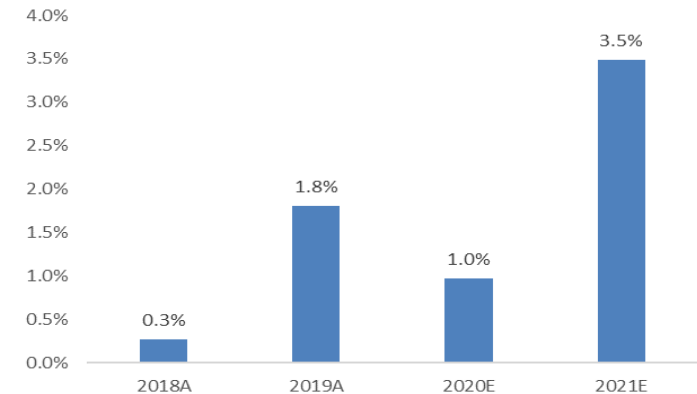
Robert Moskow

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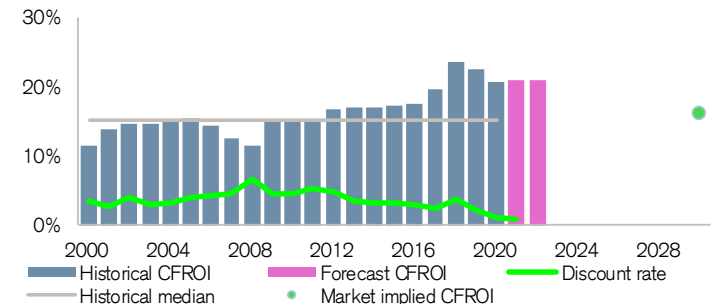
HSY – Rating: Outperform | Target Price: \$175 | Market Cap: \$39.2B | Current Price: \$145.19 [HSY in HOLT®](#)

- WHY IS THIS OUR #1 TOP PICK? Hershey is poised for an above-algorithm growth year (3%+) in 2021 because of sustainable market share gains in North America and a 2% tailwind from International markets which were compromised by government restrictions during the peak of COVID-19 in 2020
- INVESTMENT THESIS:** Hershey is the clear market leader in the attractive confectionery category. In contrast to other food companies, it has consistently demonstrated pricing power to offset higher input costs. Recently it has widened its competitive moat by expanding manufacturing capacity, sales force coverage, advertising spending, and e-commerce capabilities. We expect market share gains to remain elevated for the rest of 2021 because its nearest competitor, Mars, has struggled with supply chain difficulties and execution missteps.
- CATALYSTS:** Monthly Nielsen retail tracking data, and 4Q20 results (out on 2/4/21).
- DEBATE / PUSHBACK:** Buy-side investors' pushback has been focused on 1) the possibility that market share gains will reverse once Mars regains focus; 2) the confectionery category has slowed over the past several years owing to more competition from healthier snacks; 3) Hershey lacks strength in International markets
- OUR VIEW:** 1) Hershey's market share gains are likely to persist at least through 2021 and probably beyond retailers awarded the company more shelf space following its strong performance during Halloween 2020. Retailers also allowed Hershey to raise prices on selected seasonal items in January 2021 to offset higher commodity costs; 2) the confectionery category's growth rate has stabilized at 1-2% in the U.S. Hershey's expansion into fast-growing adjacent snack categories (e.g. puffed snacks and meal replacement bars) provides incremental growth opportunities; and 3) Even though Hershey does not have a particularly strong International business (only 10% of sales), it can still provide a significant lever for profit growth in 2021 now that distributors have full access to retailer shelves in countries like Mexico, Brazil, and India.
- VALUATION:** Our \$175 target price and Outperform rating assumes a 24x P/E multiple against our forward 12 month estimate. This is above its 10-year average of 21.6x on an absolute basis, but in-line with other blue-chip consumer staples peers like KO, PEP, PG, and CL. Risks: Hershey's Specialty Retail channel and its International markets may be slow to recover from the pandemic.

Hershey is poised for an above-algorithm year (3%+) in 2021



HSY in HOLT®



HOLT®: HSY has consistently generated strong and stable returns on capital. Consensus forecasts returns at historical levels, and the market implies further deterioration of profitability.

Source: USDA, Credit Suisse HOLT

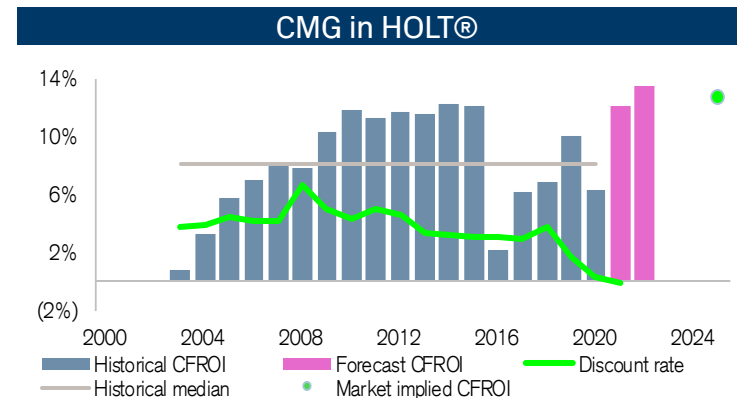
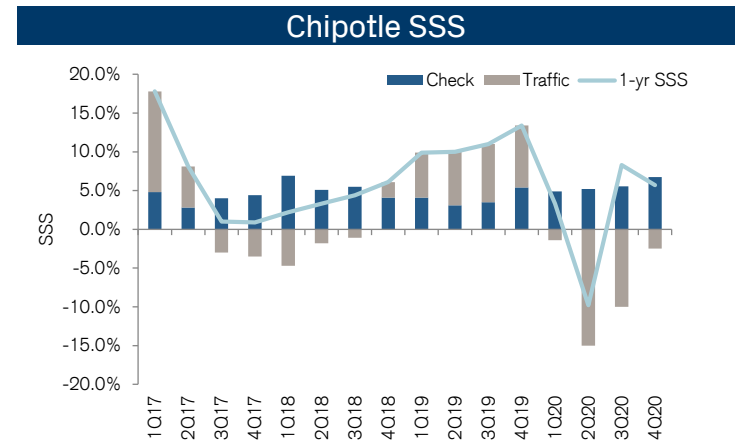
Consumer Restaurants

Chipotle Mexican Grill, Inc. (CMG.N)

Lauren Silberman
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(212) 325-2720

CMG – Rating: Outperform | Target Price: \$1,760 | Market Cap: \$40.8B | Current Price: \$1484.95 [CMG in HOLT®](#)

- WHY IS THIS OUR #1 TOP PICK? We believe CMG is an underappreciated multi-year comp story with a strong margin opportunity leading to powerful earnings upside.
- INVESTMENT THESIS: CMG has returned to a narrative of growth rather than recovery, with on-trend initiatives that well position the company to appeal to its target base and outperform peers. Contributions from traffic and avg check growth should support MSD SSS longer term and generate margin leverage to drive an EPS CAGR of at least 25-30%.
- CATALYSTS: 2Q21 earnings; nationwide rollout of quesadillas.
- DEBATE / PUSHBACK: Can CMG return to/exceed prior sales levels? Can CMG “comp the comp” over the next few years? What is CMG’s margin profile? The pushback will be valuation and concerns regarding structural margin headwinds.
- OUR VIEW: CMG has a slate of sales drivers (digital, delivery, new menu innovation) to support ongoing SSS momentum. Sales leverage and cost efficiencies should continue to drive margin expansion (every \$100K in AUVs is ~100bps restaurant margin).
- VALUATION: Our \$1,760 target price is based on ~54x/32x our NTM EPS/EBITDA in 12 months. Key risks: food safety headlines, COVID-19, consumer spending, inflation.
- LATEST RESEARCH REPORTS:
 - [CMG: Guac & Roll for the Super Bowl](#)
 - [CMG: Comping the Comp](#)
 - [CMG: Guac is Worth the Extra Charge and So Is Growth; Initiate Outperform](#)



HOLT®: Consensus forecasts and market implied expectations suggest returns to rebound from 2020 depressed levels to reach historic highs.

Source: Company data, Credit Suisse HOLT

Consumer Retail: Hardlines

Advance Auto Parts, Inc. (AAP.N)

Seth Sigman

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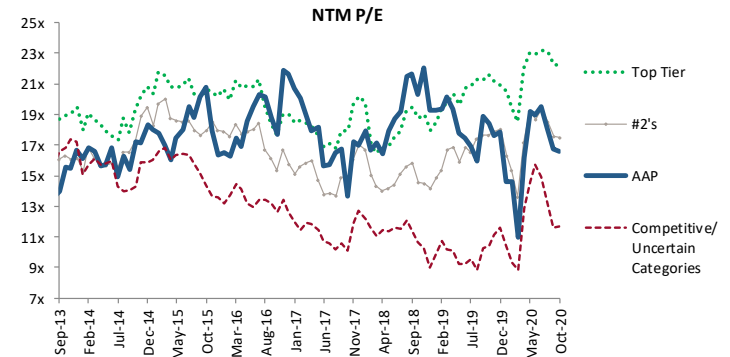
(212) 538-8043

AAP – Rating: Outperform | Target Price: \$202 | Market Cap: \$10.65B | Current Price: \$162.66

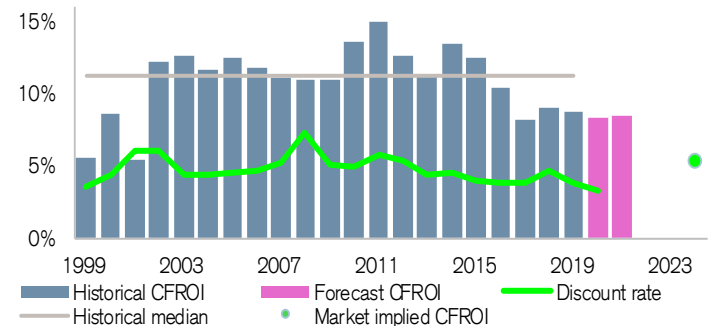
[AAP in HOLT®](#)

- **WHY IS THIS OUR #1 TOP PICK?** We see an improving setup for the Aftermarket Auto Parts stocks. We believe that AAP offers the most upside and has the most favorable set up due to mix and company drivers.
- **INVESTMENT THESIS:** A leading auto aftermarket parts retailer, serving a mix of professional and retail customers, offers exposure to a relatively defensive category, plus many internal initiatives aimed to close the significant margin gap to peers. The auto parts group should benefit from incremental stimulus. The category is defensive in nature, and should see higher maintenance and repair spend driven by higher average age of vehicles and growth in the number of vehicles that require aftermarket repair. Mgmt. has line of sight into EBIT margin expansion, which seem underappreciated based on current valuation.
- **CATALYSTS:** Acceleration in miles driven. Upcoming competitor results in February and analyst day in April
- **DEBATE / PUSHBACK:** Timeline for turnaround and margin recovery. The pushback; recent industry strength not sustainable, key demand drivers (miles driven) remain pressured, key investments behind margin improvement story have been delayed due to COVID.
- **OUR VIEW:** Short-term, sales are accelerating. Underlying growth targets for FY21 are stronger than expected, with more annual margin expansion expected in FY22+ as COVID costs normalize and various initiatives (supply chain, private label) ramp.
- **VALUATION:** Our \$202 target price is based on 17x our FY22 EPS, a slight discount vs. historical relative valuation. Risks: weather and miles driven concerns.
- **LATEST RESEARCH REPORTS:**
 - [AAP 4Q20 results](#)
 - [Auto Parts Retail: Staying Patient for the Recovery, While Short-Term Also Should See a Boost](#)
 - [Hardline Broadline Retail 2021](#)

AAP Relative Valuation vs. Retail



AAP in HOLT®



HOLT®: Market expectations imply a decline in returns on capital from consensus forecasts and below historical median levels.

Source: FactSet, Credit Suisse HOLT

Consumer Retail: Hardlines Williams-Sonoma (WSM.N)

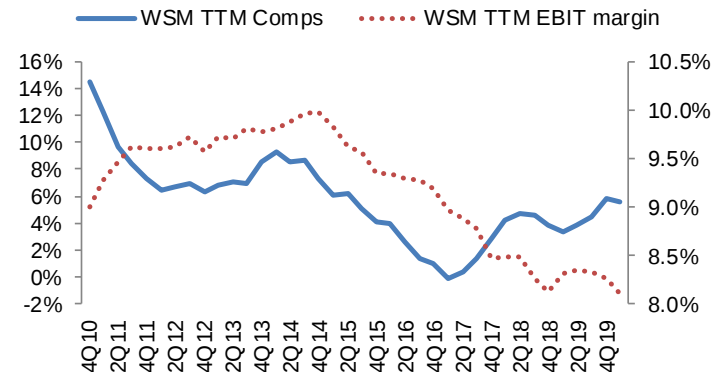
Seth Sigman

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(212) 538-8043

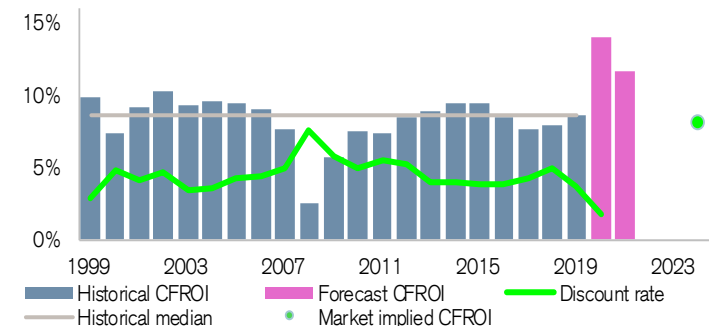
WSM – Rating: Underperform | Target Price: \$95 | Market Cap: \$10.3B | Current Price: \$135.44 [WSM in HOLT®](#)

- WHY IS THIS OUR #1 TOP PICK? Long-term outlook for margin expansion seems aggressive given that recent sales acceleration has been supported by unique factors that are not expected to continue in a normalized environment.
- INVESTMENT THESIS:** We believe the online competitive backdrop is more challenging in a normal environment where there is inventory availability with a focus on pricing and higher advertising costs. WSM may continue to face competitive pressure (including new entrants and some disruptive pure online players), and rising costs of doing business (shipping, discounts and marketing), putting the long-term margin outlook at risk.
- CATALYSTS:** Housing/ stock market trends. Stimulus and shifts in consumer spending.
- DEBATE / PUSHBACK:** Sustainability of comps outperformance vs. industry. The pushback; loyalty efforts, better in-stock, cross brand initiatives and B2B focus should support comps and market share growth. This should help WSM leverage supply chain/ other investments.
- OUR VIEW:** We see risk to home furnishings category demand in a recovery post pandemic and return to normalized cost of doing business, lapping elevated demand and unusually low promos and cost reductions, that would make it difficult to drive margin expansion.
- VALUATION:** Our \$95 target price is based on a ~14x P/E multiple assigned to our 2022 estimate based on our projections of the company's long-term EPS growth and its relative competitive position. Risks include: consumer, competition, investments.
- LATEST RESEARCH REPORTS:**
 - [Home Furnishings Retail: From the Field: Reaccelerating, for Now, but Risks to Monitor](#)
 - [Hardline Broadline Retail 2021](#)

WSM TTM Comps vs. TTM EBIT Margin



WSM in HOLT®



HOLT®: Market expectations suggest returns on capital at median level due to high competition and subdued demand.

Source: Company data, Credit Suisse HOLT

Consumer

Retail: Softlines & Global Brands

Tapestry, Inc. (TPR.N)

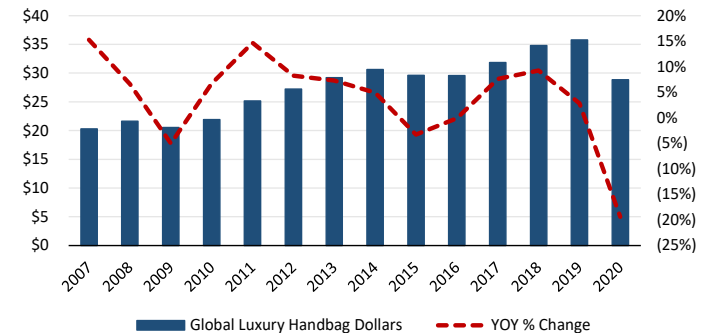
Michael Binetti
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(212) 325-7812

TPR – Rating: Outperform | Target Price: \$50 | Market Cap: \$11.5B | Current Price: \$41.5

TPR in HOLT®

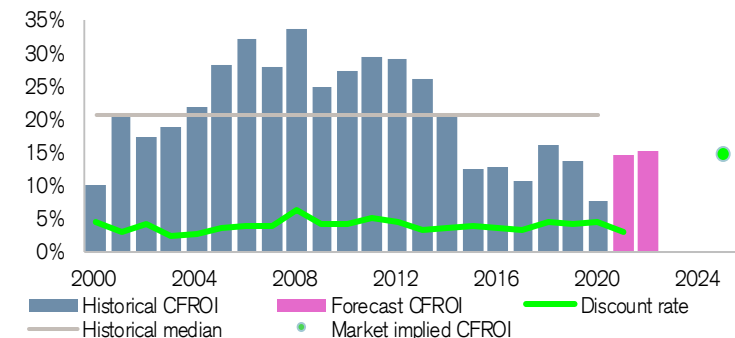
- WHY IS THIS OUR #1 TOP PICK? We think TPR is best positioned in our coverage to benefit from the reacceleration in fashion spending as lockdowns diminish, and its company-specific investments in key growth channels (digital + China) during COVID.
- INVESTMENT THESIS: On top of our bullish outlook for the handbags category, we think TPR's investment over the past year in important future growth channels/geos are under-appreciated. Firstly, TPR is accelerating growth in its \$1.3B digital business (+triple digit rate and bringing in 1.5m incremental North American customers to the brands digitally in F2Q). Secondly, growth is accelerating in China (+26% YOY over the past 2 quarters despite little to no tourism), one of TPR's most margin accretive channels. Importantly, we think positive changes enacted by the leading premium handbags brands during COVID will significantly improve pricing and margins in the category – which hasn't happened in several years. We see the case for \$3.50 of EPS power for TPR by FY23, above current Consensus estimates.
- CATALYSTS: Incremental datapoints on US retail recovery; F3Q21 earnings (May 2021).
- DEBATE / PUSHBACK: In our view both TPR and CPRI are making much more aggressive attempts to maintain rationale pricing and promotions in the handbags category, especially as CPRI lowered its long-term revenue target for Michael Kors brand from \$5B to \$4B to pursue a quality of sales strategy. Combined these two companies make up about ~45% share of the premium handbags market; thus there is risk if one of the company's breaks inventory/promotional discipline there will have be a negative impact on margin trajectory – something which held back stock performance in years past.
- OUR VIEW: We think TPR is one of the best positioned stocks in softlines retail to outperform given 1) our expectations around a very strong reacceleration in fashion category spending; 2) TPR's company-specific investments in key growth channels (China + Digital); and 3) positive changes to the competitive/pricing environment within the handbags category.
- VALUATION: Our \$50 target price is based on ~15x our CY22 EPS. While we don't expect TPR to trade back to the 18-20x peaks of the last 10 years (as recently as 2017/2018), we think positive revisions to Consensus EPS – and TPR likely to restore the dividend in late CY21 – should warrant a P/E closer to the mid-teens vs today's levels. Risks include changes in global and macro consumer trends, brand turnaround execution, and competition.
- LATEST RESEARCH REPORTS:
 - [TPR Upgrade to Outperform After Meetings with Tapestry: Raising Target Price to \\$50 from \\$39](#)
 - [TPR: Strong F2Q Beat, with Pre-COVID EPS Power Just Around the Bend](#)

Global Handbags Set to Recover to CY19 Levels Quickly



Global handbags declined -19% in CY20 after growing at a +6.5% CAGR the previous 3 years, and we expect Handbags to recover to the category's CY19 TAM quickly.

TPR in HOLT®



HOLT®: Consensus forecasts and market expectations suggest a rebound in returns on capital from 2020 levels, but still well below its long term historic levels, which underappreciates the potential from the strong reacceleration in fashion category spending.

Source: Company data, Credit Suisse HOLT

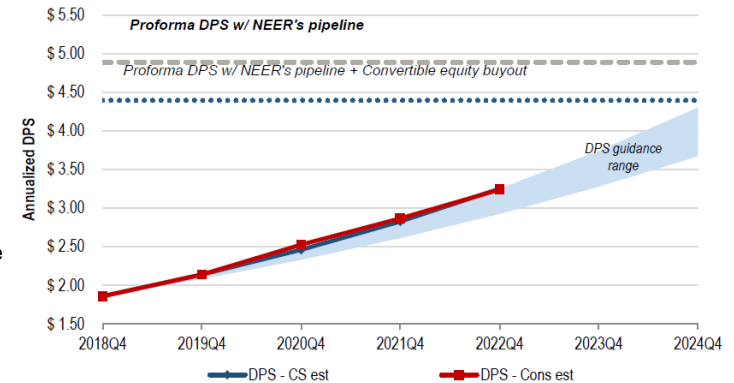
Energy Alternative Energy NextEra Energy Partners (NEP.N)

Michael Weinstein
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(212) 325-0897

NEP – Rating: Outperform | Target Price: \$87 | Market Cap: \$5.52B | Current Price: \$83.90

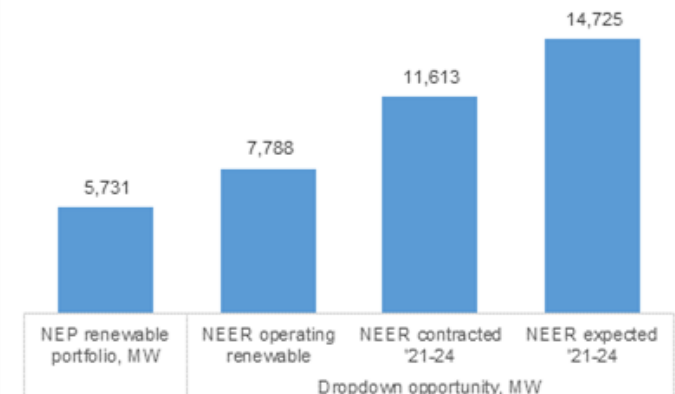
- WHY IS THIS OUR #1 TOP PICK? NEP is the largest and best in class yieldco and pure-play renewable asset operator in the US. The company has guided 12-15%/yr distribution growth through 2024. We estimate that NEP can grow distributions at 15%/yr beyond 2025 driven by sponsor NEE's ability to drop down its contracted and planned renewable portfolio. The company can also grow distributions organically by repowering existing wind assets, potentially installing battery storage at existing sites, and acquiring projects from third-party developers.
- INVESTMENT THESIS: Best in class Yieldco with strong sponsor support from NEE which is the largest renewable developer in the US. NEE's ~20-30 GW project pipeline can support NEP's distribution growth at 15% beyond 2024.
- CATALYSTS: (1) possible extension of renewable tax credits by three years by Democrats (2) Standalone battery tax credits under Biden/Democrats, (3) Dropdowns financed via convertible equity.
- DEBATE / PUSHBACK: Use of convertible equity preferred financing (CEPF) reduces equity needs in the near-term, but doesn't avoid long-term equity needs for distribution growth.
- OUR VIEW: CEPF reduces near term cash needs and provides an alternative source of funding from private infrastructure investors. CEPF will have to be refinanced with cash or equity in the future, but we estimate that NEE's renewable portfolio can still meet distribution growth through 2024 at least even after any potential equity dilution due to CEPFs.
- VALUATION: Our TP of \$87 is based on the average of dividend yield (\$85), EV/EBITDA (\$76) and dividend discount model (\$100). Our 3-stage dividend discount model (DDM) reflects 15% distribution CAGR through 2026, reducing to 5% from 2027-2030, and 1% thereafter. We use a 3.5% dividend yield (in line with current yield) and 14.5x EBITDA multiple on 2022 EBITDA (in line with that for sponsor NEE). We use a 6.3% equity discount rate. Key risks: COVID related slowdown, policy changes (ITC rules, net metering tariffs), rising equipment costs, interest rates, and incumbent utility rates.
- LATEST RESEARCH REPORTS:
 - [1/27 NEP: More Sunshine for Sponsor; Raise TP \\$1](#)
 - [1/20 NEP: Pricing In New Administration and Repowering Opportunity; Raise TP by \\$15](#)
 - [1/20 Alternative Energy: 2021 Outlook - Accelerating the Energy Transition](#)

NEP distribution growth supported by NEP portfolio



Source: Company data, Credit Suisse

Strong visibility in NEP's dropdowns



Source: Company data, Credit Suisse

Oil and Gas Exploration & Production (E&P)

EOG Resources (EOG.N)

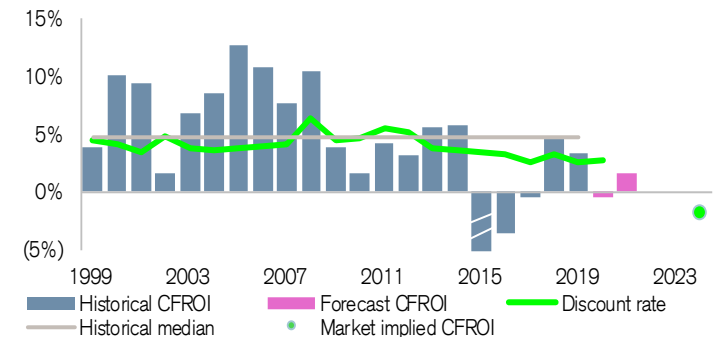
EOG – Rating: Outperform | Target Price: \$80 | Market Cap: \$38.3B | Current Price: \$64.98
[EOG in HOLT®](#)

- WHY IS THIS OUR #1 TOP PICK? EOG is our top pick amongst US E&Ps given its longstanding commitment to financial discipline and returns-focused approach that investors are now demanding for the rest of the industry. EOG also boasts below average financial leverage, a strong execution track record, and discount valuation versus peers.
- INVESTMENT THESIS: EOG differentiates itself in the current price environment with its ability to deliver high single digit oil production growth, which at \$50/Bbl WTI management sees supported by 70-80% cash flow reinvestment rate supporting ~\$2 billion of annual free cash flow. FCF priorities include sustainable dividend growth (~2.2% current yield), continued balance sheet strength (net debt leverage already sub-0.5x at strip), value-accretive share repurchases and low-cost property additions.
- CATALYSTS: 1) Greater visibility on President Biden's climate agenda; 2) continued dividend growth (and potential variable dividend and/or buyback authorization).
- DEBATE/PUSHBACK: Large exposure to federal acreage leaves EOG vulnerable to potentially significant regulatory restrictions on fossil fuel development.
- OUR VIEW: Federal acreage exposure appears priced in. Of its 10,500 premium drilling locations (>20 years of development at its 2020 pace), roughly half are on federal leases, including 54% of its ~6,500 premium locations in the Delaware Basin. Versus oil-levered peers EOG has de-rated from a ~1.0x relative premium at the beginning of 2020 to a ~0.5x discount more recently... suggesting much of the regulatory risk has already been priced in.
- VALUATION: Our \$80 target price is based on ~6.0x 2022E DACF and ~0.80x NAV. We rate EOG Outperform given its much stronger balance sheet, compelling FCF Yield and cash flow per debt-adjusted share outlook vs. peers, and attractive relative EV/DACF valuation. Risks: oil prices, federal land, execution.
- LATEST RESEARCH REPORTS:
 - [Oil & Gas: An ESG Scorecard Tailored to US E&Ps](#)
 - [Oil & Gas: What We Learned from 3Q E&P Results Season](#)
 - [EOG: Much-Anticipated Multi Year Outlook Gives Better Visibility on Growth/FCF; Solid 3Q Beat](#)

Valuation vs Oil-Levered Peers (2YR FWD EV/EBITDX)



EOG in HOLT®



HOLT®: Consensus forecasts returns below cost of capital while the market is pricing negative returns on capital in the long term.

Source: Company data, Credit Suisse estimates, Credit Suisse HOLT

Energy Midstream & MLPs Targa Resources Corp. (TRGP.N)

Spiro Dounis

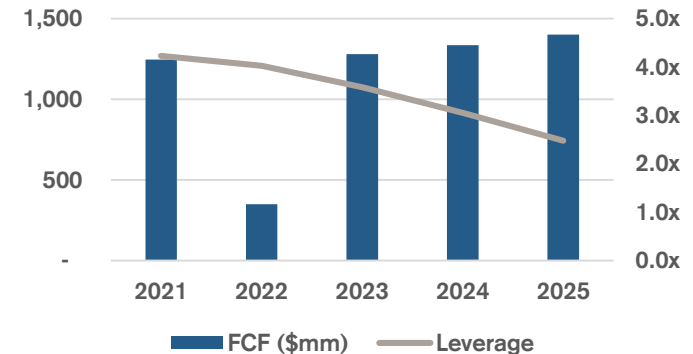
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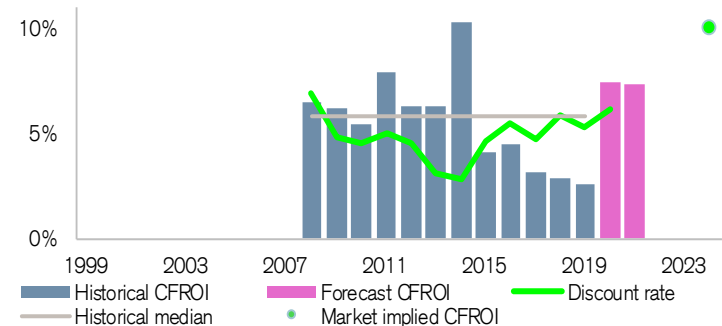
TRGP – Rating: Outperform | Target Price: \$34 | Market Cap: \$7.33B | Current Price: \$32.06 [TRGP in HOLT®](#)

- **WHY IS THIS OUR #1 TOP PICK?** TRGP boasts a top-tier FCF yield, one of the fastest de-levering stories, the right asset mix for the next cycle, and built-in growth. We believe TRGP is well positioned to benefit from a relative return to normalcy
- **INVESTMENT THESIS:** The Permian is the only major basin where we anticipate tangible growth over the medium term; TRGP currently derives ~70% of G&P volumes from the Permian. Secondly, TRGP exited '20 much leaner, with one of the most rapidly de-levering balance sheets in our coverage group – we estimate 4.4x leverage exiting '20 falling to <3.0x by mid-'24. Finally, with increasing return thresholds, TRGP is one of the few names in the space with built-in growth via its DevCo interests.
- **CATALYSTS:** TRGP has the option to purchase the remaining DevCo interests in Grand Prix, Gulf Coast Express, and Train 6 at a predetermined value, which is expected to result in a ~5.0-6.0x multiple. The current base case is a purchase in 1Q22, which we would expect to be both accretive to valuation and leverage neutral, while also shifting the business mix further toward fee-based logistics & transportation assets.
- **DEBATE / PUSHBACK:** We acknowledge steep declines across non-core basins, which we expect to continue. We also continue to see risks with sizeable G&P and commodity exposure, however we believe that the potential upside now outweighs the downside. We've already seen what a challenged scenario looks like. TRGP proved fairly durable with Permian G&P volumes declining just ~2% in 2Q20 despite significant curtailments. In fact, thanks to growth projects such as the Gateway Plant, 3Q20 Permian G&P volumes reached all-time highs.
- **VALUATION:** Our Outperform and \$34 target price implies ~9.0x FY22 EBITDA, in-line with large cap trading levels, which we believe is warranted based on its integrated asset base, earnings durability, premium FCF yield, and growth. Our TP is NAV derived at a 9% cost of equity. Downside risks: slower than expected Permian growth, greater than expected funding needs, lower NGL prices / demand, growing competition from private equity.
- **LATEST RESEARCH REPORTS:**
 - [US Midstream & MLPs – A Fresh Look at Valuation](#)
 - [TRGP – Proven Durability; Upgrade to Outperform](#)

TRGP Leverage vs FCF



TRGP in HOLT



HOLT®: TRGP's consensus forecasts and market implied expectations indicate improvement in returns on capital.

Source: Credit Suisse estimates, Credit Suisse HOLT

Energy

Midstream & MLPs

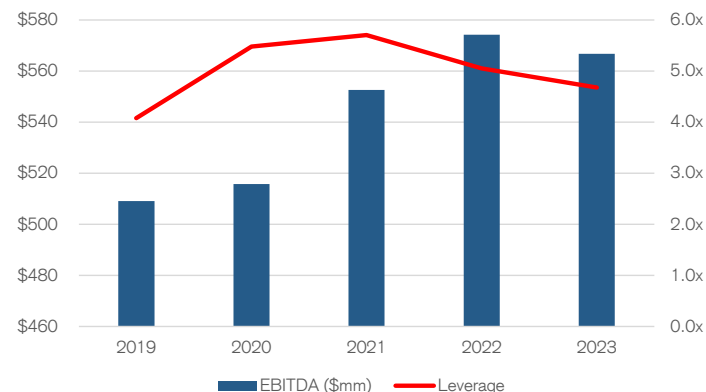
NGL Energy Partners LP (NGL.N)

Spiro Dounis
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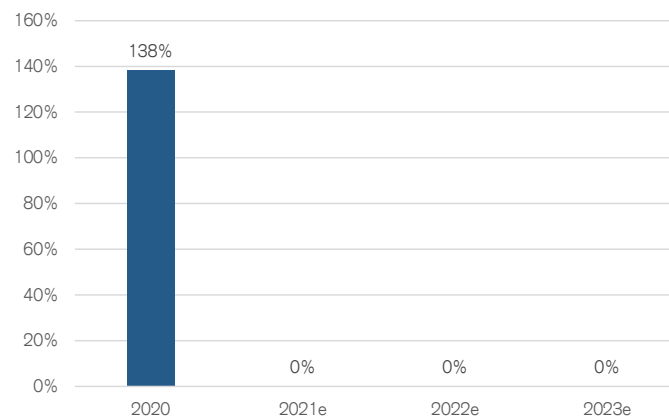
NGL – Rating: Underperform | Target Price: \$2.25 | Market Cap: \$336M | Current Price: \$2.6

- **INVESTMENT THESIS:** NGL's close proximity to the wellhead and high leverage drive our expectation for lagging performance. NGL remains one of the most highly levered stocks under coverage with leverage above 5.0x in the near term despite the recent distribution and capex cuts. NGL levered up to build out a premier water gathering business; however, we believe that strategy was predicated on significant growth which now seems unattainable.
- **CATALYSTS:** Dilutive de-levering events.
- **DEBATE / PUSHBACK:** Water volume growth in the Northern Delaware more than offsets declines in other basins which coupled with the recent cash retention strategies drive positive FCF.
- **OUR VIEW:** While NGL expects to be FCF positive, lower Grand Mesa revenues and higher interest costs limit cash available to address high leverage.
- **VALUATION:** Our \$2.25 target price is NPV derived assuming a ~1% decline rate and a 12% cost of equity. Risks include higher-than-expected water and crude volumes, accretive asset sales and higher crude logistics margins.
- **LATEST RESEARCH REPORTS:**
 - [NGL: Outlook Reiterated; Long Road for Equity](#)
 - [US Midstream & MLPs: Fresh Look at Valuation](#)

Estimated EBITDA vs. Leverage (Calendar Year)



Distribution as % of FCF (Calendar Year)



Source: Company data, Credit Suisse estimates

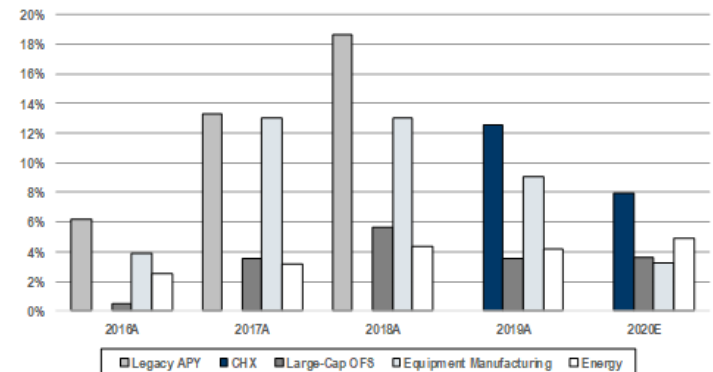
Energy Oilfield Services & Equipment ChampionX (CHX.OQ)

Jacob Lundberg
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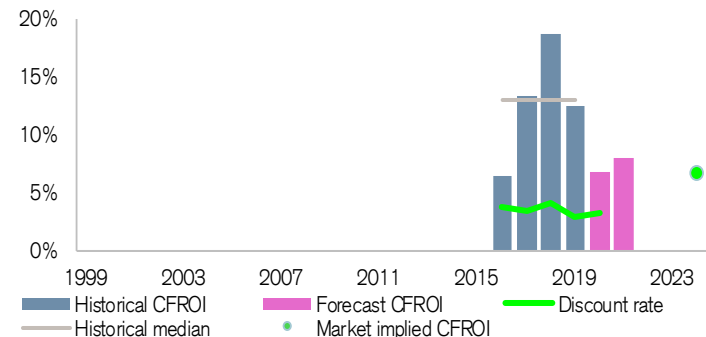
CHX – Rating: Outperform | Target Price: \$21.5 | Market Cap: \$4.57B | Current Price: \$22.8 [APY-CHX Pro-Forma in HOLT®](#)

- INVESTMENT THESIS:** CHX is our preferred defensive SMID OFS name, given its production orientation, high-quality portfolio, and idiosyncratic cost-out and revenue growth opportunities. We think a defensive name such as CHX merits investor attention, given a challenged near-term Oil Services outlook. In 2021, we expect continued year-over-year contraction in oilfield activity in the United States as well as in international markets. We think the long-term outlook for US Oil Services is structurally impaired vs. pre-downturn. Against that backdrop, we like CHX's defensiveness from a product perspective (more production, less D&C), quality (high-quality product portfolio), and idiosyncratic opportunities (on costs and revenues). We expect these attributes to drive better-than-peer performance over the next 12 months.
- CATALYSTS:** We see idiosyncratic growth opportunities (international lift expansion, new markets for synthetic diamond products) as a ~\$1.50/share opportunity for CHX, which represents ~10% upside potential. We also see (1) deal synergies, (2) legacy ChampionX cost out, and (3) legacy Apergy cost-out driving incremental cost-out. Incremental cost benefits yet to be realized represent a cumulative ~\$16M on a quarterly run-rate basis (45% uplift vs. 2Q20 EBITDA). Further, the exhaustion of legacy ECL shareholders selling will be an upside catalyst.
- DEBATE / PUSHBACK:** If the cycle is turning (i.e., oil is finding a bottom & '21 is a recovery year for OFS markets), CHX's peers with more leverage to that upcycle will outperform. In this case, CHX is a relatively more defensive stock in a bull market. Also, CHX is already favored within the buy side community. We think the idiosyncratic opportunities on the revenue/cost sides continue to be underappreciated as CHX has traded more like a low quality OFS name.
- Valuation:** Our \$21.5 DCF-based price target (7.5% WACC, 0% terminal growth) contemplates normalized Cash Flow Return on Investment (CFROI®) of ~14% (vs. long-term OFS/equipment manufacturing median CFROI of 8%/15%). Risks to our thesis include integration and expansion risk (APY-ECL Upstream), cost synergy realization, balance sheet leverage, term structure of debt maturities, geographic and geopolitical risk, and commodity price risk.
- LATEST RESEARCH REPORTS:**
 - [Oilfield Services & Equipment: Q4 2020 Earnings Preview](#)
 - [ChampionX: A High-Quality, Defensive Portfolio with Upside Optionality: Initiating at Outperform with \\$13 PT](#)

CHX Produces Peer-Leading Returns



APY-CHX Pro-Forma in HOLT®



HOLT®: APX has historically has generated high returns on capital. Market expectations indicate steep decline in returns from historical levels, not giving credit to merger synergies.

Source: Credit Suisse estimates, Credit Suisse HOLT

Energy

U.S. Oil & Gas Royalty Minerals

Viper Energy Partners (VNOM.OQ)

Chris Baker

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VNOM – Rating: Outperform | Target Price: \$19 | Market Cap: \$1.03B | Current Price: \$15.89

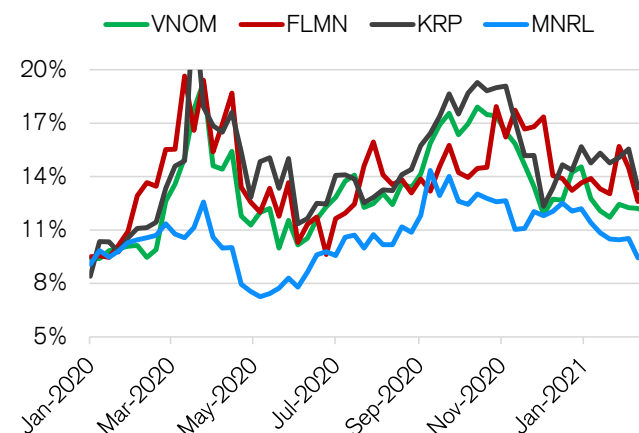
- WHY IS THIS OUR #1 TOP PICK? VNOM is our top pick amongst the US Oil & Gas Royalty companies given its unique FANG-sponsorship which removes significant development timing risk. It's top tier mineral position concentrated in the low-cost Permian basin, best-in-class cash margins, and attractive relative valuation are additional key positives.
- CATALYSTS: 1) large-scale acquisitions that broaden its exposure to FANG-operated minerals; 2) formal guidance around long-term payout ratio policy.
- DEBATE / PUSHBACK: Elevated leverage requires it to retain a portion of cash for debt reduction this year. Moderating E&P growth profiles are a headwind for the Royalty group as a whole to deliver organic production growth.
- OUR TAKE: We see leverage as manageable near-term, with its 2021 FCF framework allowing it to still return a majority of cash to investors via the quarterly distribution and continued execution on its buyback authorization... while we see VNOM able to bring leverage below 2.0x by mid 2021. FANG's ability to direct gross completion activity to the benefit of VNOM is expected to bias VNOM's growth ahead of FANG long-term.
- VALUATION: VNOM trades at a slightly better cash flow yield vs Royalty peers on 2021 CF at strip, and roughly in-line with peers on P/NAV despite the differentiated activity/production visibility offered by its unique FANG-sponsorship. Our \$19 target price is based on a blended average of 10% 2022E cash flow yield and 0.8x NAV. Risks to our outlook include oil prices and 3rd party development timing.
- LATEST RESEARCH REPORTS:
 - [VNOM: 4Q Beat: Executing On Debt Reduction & Cash Return Program](#)
 - [Oil & Gas Royalty Minerals: 4Q20 Earnings Preview](#)
 - [VNOM: Surprise Buyback Highlights Attractive Cash Flow Yield](#)
 - [VNOM: 4Q20/1Q21 Guide Looks Reasonably Conservative \(3Q Earnings\)](#)
 - [Oil & Gas Royalty Minerals: 3Q20 Earnings Preview](#)
 - [Oil & Gas Royalty Minerals: Investor Day Highlights \(9/18/20\)](#)

Comp Table (Strip Price Deck)

Ticker	2/24/21	Cash Flow Yield			P/NAV	
		2020E	2021E	2022E	1P	2P
MNRL	\$15.45	7.0%	10.4%	9.5%	1.65x	0.92x
FLMN	\$4.16	7.2%	13.2%	14.7%	4.08x	1.14x
KRP	\$9.87	9.1%	14.4%	13.9%	1.80x	0.64x
VNOM	\$16.07	6.0%	10.6%	11.9%	2.94x	0.82x
Average		7.3%	12.2%	12.5%	2.62x	0.88x

Strip Price Deck (WTI/HH): 2021: \$57.34/\$3.07; 2022: \$53.30/\$2.73; 2023: \$50.90/\$2.55; 2024+: \$49.67/\$2.53.

2022 Cash Flow Yield (Strip Price Deck)



Vistra Energy (VST.N)

Michael Weinstein

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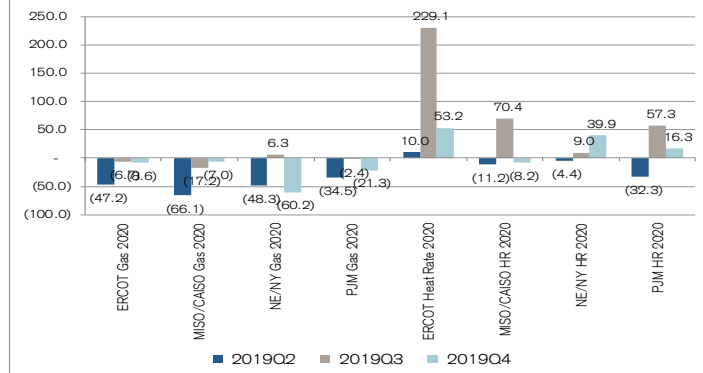
VST – Rating: Outperform | Target Price: \$25 | Market Cap: \$8.4B | Current Price: \$17.41

[VST in HOLT®](#)

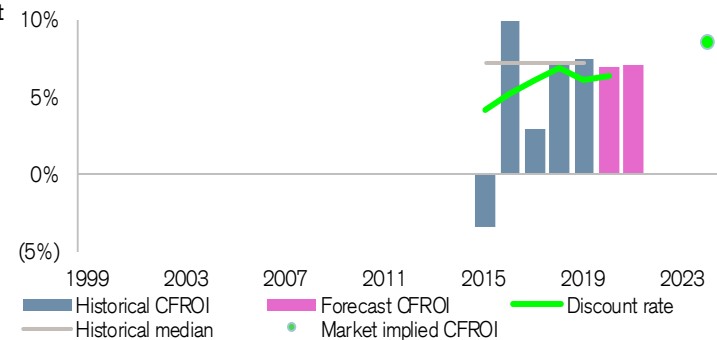
- WHY IS THIS OUR #1 TOP PICK? We see Integrated utilities with non-utility exposure outperforming in 2021 as funds rotate away from Defensive sectors and into Value.
- INVESTMENT THESIS:** We continue to see VST as significantly undervalued by the market. VST initiated 2021 ongoing operating adjusted EBITDA guidance in the range \$3.075B-3.475B (CS \$3.336B) and ongoing operating adjusted FCFB guidance in the range \$1.765B-\$2.165B. FCF conversion guided at ~60% for 2021, but expected to return to 65%-70% in 2022 after plant outages and maintenance contract payments. Although 2020 ERCOT demand is back to pre-COVID-19 levels, the pandemic did cost Texas approximately a year of demand growth, which likely results in delayed renewables deployment and a tighter supply/demand in 2021. With a well-run fleet, and well-matched retail load, we also see VST as insulated from financial harm during the 2021 Polar Vortex in Texas; they are possibly a net beneficiary of higher forward prices.
- CATALYSTS:** Illinois legislation timing some time May/June as well as possible commentary on share repurchase program in next earnings call.
- DEBATE / PUSHBACK:** Some investors have questioned whether VST's fossil fleet could be harmed by an increasingly aggressive push in the US toward decarbonization and renewable energy. Additionally, any concerns investors may have over GhG exposure and renewable energy impacts are mitigated by the company's ability (and plan) to invest \$500M/yr in renewables and Retail over the next 10 years, a rate that is more than capable of generating annual \$90-\$100M EBITDA growth to offset the impact of coal plant retirements.
- OUR VIEW:** We continue to see VST as significantly undervalued by the market and reiterate our OP rating and \$25 TP.
- VALUATION:** Our \$25 TP is based a combination of 2022 EV/EBITDA comp multiple and NPV of capacity payments. Risks: commodity pricing & fuel supply, fleet operation, retail margins, customer retention, interest rates, political, legal, regulatory.
- LATEST RESEARCH REPORTS:**
 - [VST: Additional thoughts on Texas Vortex](#)
 - [VST: Cold Weather serves as a Reminder on Tight Texas Reserve Margins](#)

VST Sensitivity Analysis

**VST Sensitivity Analysis: MtM of 2020
Forwards, 2Q19 vs 3Q vs 4Q (\$M)**



VST in HOLT®



HOLT®: VST's current valuation implies returns to stay flat from historical levels, which we believe undervalues the company's potential.

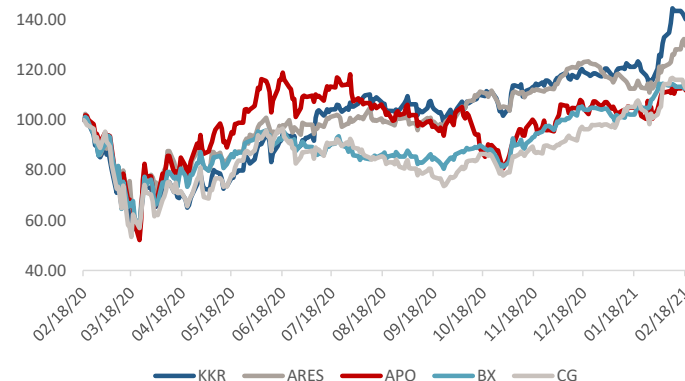
Source: Company data, Credit Suisse estimates, Credit Suisse HOLT

APO – Rating: Outperform | Target Price: \$60 | Market Cap: \$22.37B | Current Price: \$50.38

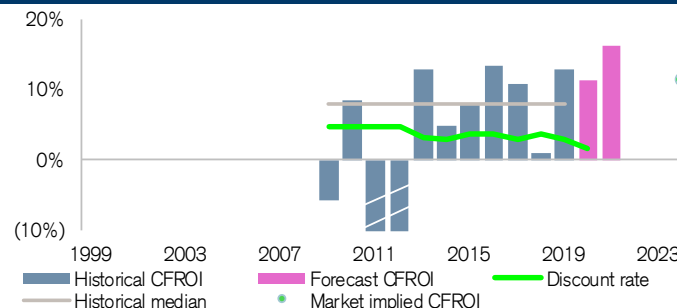
APO in HOLT®

- WHY IS THIS OUR #1 TOP PICK? APO is our highest conviction long given its very attractive valuation (22x FRE with zero value for balance sheet and performance fees). Additionally, we think that the resolution of the Black-Epstein investigation will improve investor sentiment and help re-accelerate fundraising activity in 2022 which supports its next mega buyout raise (Fund X).
- INVESTMENT THESIS: APO is our highest conviction six month plus long today given: (1) Strong FRE/AuM growth trajectory driven mostly by APO's insurance business and newer strategies, (2) Positioned to thrive in a distressed cycle and (3) Re-acceleration of fundraising activity in 2022 (Fund X).
- CATALYSTS: (1) Potential for full C-Corp conversion which would qualify APO for S&P 500, (2) Athene's \$100B+ opportunity for acquisitions could provide future catalysts for FRE growth, (3) performance fee rebound and (4) Fund X raise in 1H22.
- DEBATE / PUSHBACK: The bear argument is that (1) investment performance of Fund VIII has tempered investor expectations for the next 3 years; (2) risk to insurance business if Athene's or Athora's investment performance fails to outperform peers. Pushback will likely be (1) Our TRACKER estimates that only 19% of APO's PE book is public; (2) APO created these platforms to provide differentiated credits to its insurance companies that will help them outperform peers on a risk-adjusted basis and generate attractive ROEs for their shareholders.
- OUR VIEW: We are bullish on the Alternative Asset Managers given their secular growth trajectory which benefits from (1) investors raising their allocations to Alts, and (2) the consolidation of general partner relationships. This helps support our long-term positive view on the stocks including APO.
- VALUATION: Our \$60 TP is determined by a normalized FCF approach, which represents 17.5x our 5-year cash earnings average estimate. A key risk is the future investment performance of APO's two insurance permanent capital vehicles as weaker returns could disrupt its relationship and drive lower economics to APO.
- LATEST RESEARCH REPORTS:
 - [Apollo: Detailing our 3-Point Bull Case & Diffusing the Bear Argument](#)

Stock Total Return (including Divs)



APO in HOLT®



HOLT®: Consensus forecasts and market implied expectations indicate returns on capital at current levels.

Source: FactSet, Credit Suisse HOLT

JPMorgan Chase & Co. (JPM.N)

Susan Katzke

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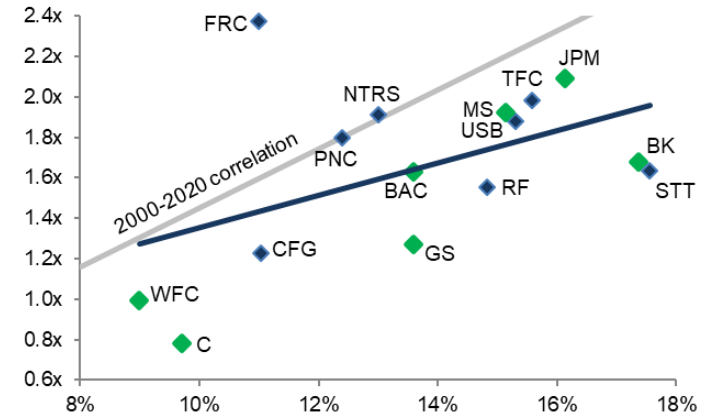
(212) 325-1237

JPM – Rating: Outperform | Target Price: \$150 | Market Cap: \$459.2B | Current Price: \$150.50

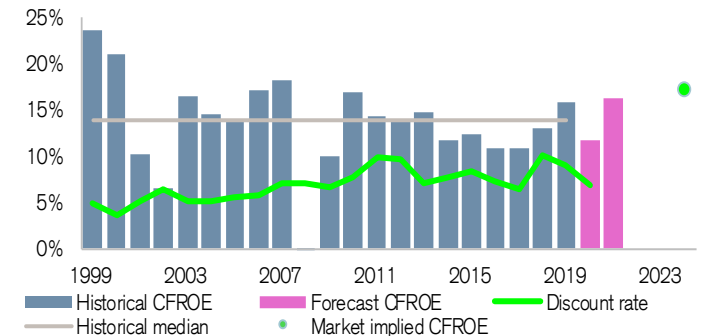
[JPM in HOLT®](#)

- **WHY IS THIS OUR #1 TOP PICK?** JPMorgan is at the top of a short list of banks that are scaled (and leveraging the advantages), complete (product, distribution channel), global and branded; this bank has a solid track record of successfully navigating to outperform, in good times and bad.
- **INVESTMENT THESIS:** JPMorgan best represents the value inherent in the universal banking model leveraging its complete, scaled and well-integrated product set to drive profitable and sustainable revenue growth. Add to that operating leverage and capital efficiency. Scale, diversification and a track record of risk management ought to support above-average returns, through the cycle.
- **CATALYSTS:** (1) Fundamental outperformance—expect JPMorgan to generate strong profitability relative to peers, irrespective of the macro backdrop; (2) Operating leverage to be realized without sacrificing investment spending; (3) Opportunistic market share gains—organically (the priority) and through acquisitions of strategic assets.
- **DEBATE / PUSHBACK:** JPM already trades at a premium to the peer group. Fair point. But you get what you pay for; JPM's premium is justified in our view by relative / sustainable ROTCE through the cycle, a function of proven expertise as both a profitable market share taker and risk manager.
- **OUR VIEW:** JPMorgan is well positioned to outperform peers irrespective of the macro environment—use it for defense or offense, thanks to management's commitment to investing for sustainable growth, balance strength to support opportunistic acquisitions of assets, and limited concentrations of risk.
- **VALUATION:** Our \$150 target price is derived through a weighted average: 30% weight on our Blue Sky scenario, a 50% weight on our base case and a 20% weight on our Grey Sky scenario; this target price translates to 1.8x year-end 2021 book value (2.2x P/TBV). Base case estimate risk/sensitivity is driven first and foremost by the level of economic activity with that in turn driving traditional banking business, capital markets activity and credit quality migration.
- **LATEST RESEARCH REPORTS:**
 - [JPM: Preparedness is Paramount in an Uncertain Economy; Management Meeting Takeaways](#)

Large Cap Banks 2022E ROTCE vs. P/TBV



JPM in HOLT®



HOLT®: Market implied expectations for JPM indicate return on equity above 2019 levels in the long term.

Source: Company data, Credit Suisse estimates, Credit Suisse HOLT

Financials

Exchanges & Market Structure

Tradeweb Markets (TW.OQ)

Ari Ghosh

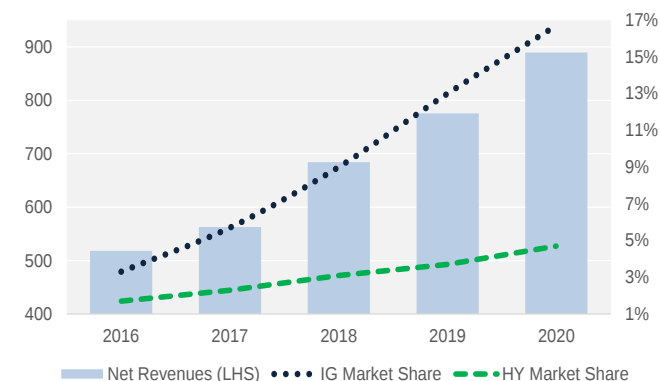
Ari.ghosh@credit-suisse.com
(212) 325-7113

TW – Rating: Outperform | Target Price: \$81 | Market Cap: \$16.77B | Current Price: \$73.69

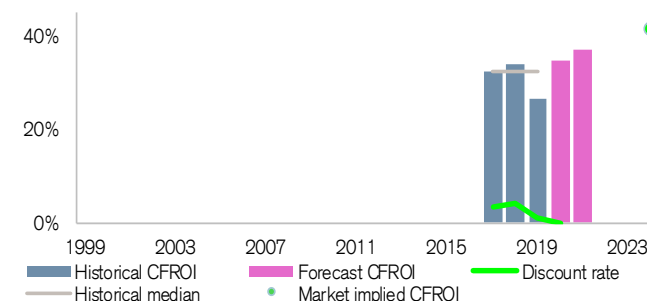
[TW in HOLT®](#)

- WHY IS THIS OUR #1 TOP PICK? Tradeweb's business diversification continues to help generate revenue & margin growth across market cycles. Additionally, secular growth prospects are intact and expanding with impressive market share gains across multiple initiatives as the pandemic also accelerates automation tailwinds. Over the next 12-months, we expect an improving rate backdrop (steeper yield curve) to benefit TW and expect additional capital deployment events (M&A) despite its recent acquisition of Nasdaq's fixed income platform.
- INVESTMENT THESIS:** We believe: (1) The electrification of fixed income markets is a significant long-term secular theme that will drive higher trading activity. (2) TW will achieve market share gains by leveraging its multi-asset/multi-protocol platform. (3) There is potential for market data revenue expansion. (4) Strategic M&A could be additive to long-term company growth.
- CATALYSTS:** (1) Remote working coupled with large debt issuance (byproducts of the pandemic) have accelerated industry automation trends as customers leverage newer TW protocols like portfolio trading & net spotting and also consume more data (record US HG and HY market share in 4Q). (2) Recently launched next generation multi-client net spotting, and AllTrade which encompasses all anonymous protocols and connects the three client segments (retail, institutional, wholesale). (3) Stronger than expected 1Q volume trends.
- DEBATE / PUSHBACK:** Recent concerns around low interest rates/rate volatility have weighed on TW as investors question the resiliency of TW's rates business (~55% of revs) in a low rate, low volatility environment which could potentially constrict segment volumes and mute revenue growth.
- OUR VIEW:** While the franchise is not immune to low volatility headwinds, we believe diversification within TW's rates business (fixed fees, counter-cyclical products, structural tailwinds...) should help absorb some of the cyclical pressures and insulate segment revenues. Also, low rate headwinds do not impact all TW rate products in a similar manner given counter-cyclical and structural factors.
- VALUATION:** Our \$81 TP is derived from a 50x multiple on our 2022 cash EPS estimate. Risks include weaker rate trading volumes (esp. IRS), muted credit mkt share gains or losses & lower mix-shift driven FPM.
- LATEST RESEARCH REPORTS:**
 - [TW – November Company Update](#)
 - [Beyond The Pandemic](#)
 - [TW - August Company Update](#)
 - [TW - May Company Update](#)
 - [Exchange Sector Initiation](#)

TW: Revenue and Market Share Trends



TW in HOLT®



HOLT®: Consensus forecasts and market expectations indicate returns on capital above historic levels.

Source: Company data, Credit Suisse estimates, Credit Suisse HOLT

Financials

Insurance – Life

Voya Financial (VOYA.N)

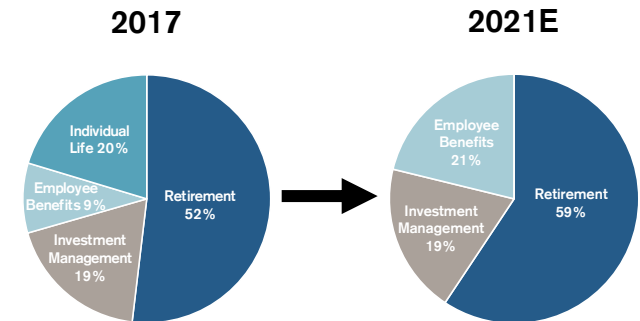
Andrew Kligerman
andrew.kligerman@credit-suisse.com
(212) 325-5069

VOYA – Rating: Outperform | Target: \$78 | Market Cap: \$7.69B | Current Price: \$62.18

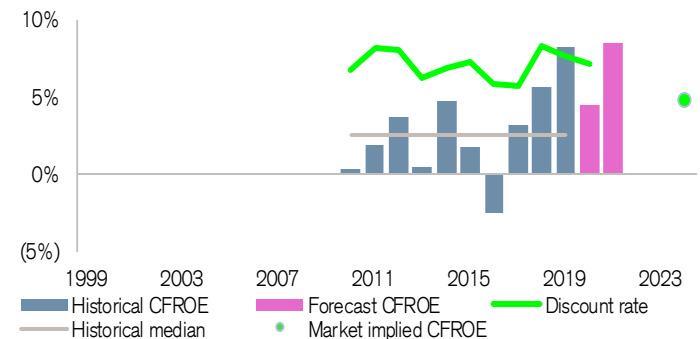
VOYA in HOLT®

- WHY IS THIS OUR #1 TOP PICK? VOYA has attractive, capital light businesses. The company generated \$1.4B of excess capital from Individual Life divestiture (which closed on January 4) and recently announced \$300M+ of expected proceeds from sale of independent financial planning channel to Cetera. We expect ~\$600M of 2021 organic capital generation. And, it could be a takeout target.
- INVESTMENT THESIS: We expect continued improvement in adjusted operating ROE, led by organic growth, capital management, and expense management. The company's Retirement, Investment Management, and Employee Benefits businesses are poised for growth, assuming COVID-19 pressures abate, while the completed divestitures of Annuities and Individual Life (deal close of January 4) materially reduce VOYA's risk profile and capital strain.
- CATALYSTS: Individual Life deal close provided \$1.4B of capital and reduces mortality, interest rate, and credit risks
 - Existing \$1.8B+ of excess capital represents 38% of 4Q20 book value (ex. AOCI) (BV); pro forma for Cetera proceeds and planned debt retirement, it's 30% of BV
 - VOYA cited expectations for \$1B of buybacks in 2021, and we think there could be upside
 - We expect core businesses to re-rate upward over time, particularly if markets rebound
 - Potential takeout
- DEBATE / PUSHBACK: VOYA has above-average exposure to alternatives (2.7% of its portfolio vs. 1.8% average for the life sector) and BBB bonds (34.3% vs. 27.5% average).
- OUR VIEW: We think VOYA's longer-term ROE target of 14-16%, versus ~13% in 2020, is in reach and that its attractive businesses warrant a valuation re-rating. VOYA's low risk business profile and sizeable excess capital help offset credit risks.
- VALUATION: Our \$78 target price is based on our sum-of-the-parts valuation methodology and contemplates recent re-ratings of peer multiples. Risks include spread compression from a low interest rate environment, equity sensitivity via AUM in Investment Management, and adverse loss ratio experience in the Employee Benefits business.
- LATEST RESEARCH REPORTS:
 - [4Q20 Earnings](#)
 - [Individual Life Deal Update](#)
 - [Management Meeting Recap](#)

Shift to Capital-Light Businesses



VOYA in HOLT®



HOLT®: Consensus forecasts returns on equity to reach historical highs in 2021, led by organic growth, capital management, and expense management, while its current price implies long term returns to drop significantly, to be in line with historical levels.

Source: Credit Suisse estimates, Credit Suisse HOLT

Financials

Insurance – P&C / Brokers

Chubb Limited (CB.N)

Mike Zaremski

mike.zaremski@credit-suisse.com

(212) 325-5061

CB – Rating: Outperform | Target Price: \$175 | Market Cap: \$75.35B | Current Price: \$167.36

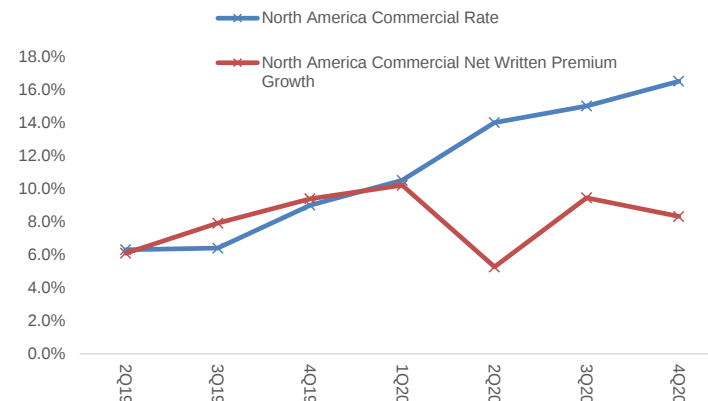
CB in HOLT®

- WHY IS THIS OUR #1 TOP PICK? Insurers of large employers (think Fortune 1000) have been dramatically retrenching capacity limits while at the same time chasing premium by moving into lower risk layers. As these insurance carriers retrench, we view Chubb, which has shown a more consistent and appropriately conservative risk appetite, is in a good position to win over long-term accounts.
- INVESTMENT THESIS: Given this backdrop, we view CB is poised to win new accounts and capitalize on accelerating rates in commercial lines products. This should position CB to grow its topline and expand core margins. CB also recently disclosed that rating agency S&P agreed to update its capital mgt. policy for Chubb, creating additional capital flexibility, enabling a mix of higher buyback levels, stronger top line growth, and some M&A.
- CATALYSTS: With at least a substantial portion of CB's COVID-19 charges likely in the past (barring a return to widespread stay-at-home orders), upcoming EPS reports should enable investors to turn their focus to potential topline growth and core margin expansion from the hardening commercial rate environment, in addition to the aforementioned retrenchment of some of CB's direct peers. In addition, as business interruption insurance litigation develops, court decisions should help investors get a better sense for how insurers may be impacted.
- DEBATE / PUSHBACK: Some have cautioned that a significant economic recession could slow commercial insurance rate growth, a key component to our Outperform thesis. CB's top line growth has also been slowed due to its exposure to consumer lines of business. Further, management's broader catastrophe loss guidance is below CB's historical averages, and our estimate is that CAT levels will be greater than the current consensus estimates.
- OUR VIEW: We view pricing conditions should drive topline growth acceleration and greater margin expansion in 2021. While CB booked substantial COVID losses, they appear manageable and perhaps conservative—CB did not record COVID losses in 3Q or 4Q.
- VALUATION: Our \$175 TP is equal to 14.3x our 2021 EPS estimate, which is equal to ~61% of the S&P 500's 2021 P/E multiple, an ~11pt discount to its historical average. Risks include: deceleration in commercial pricing; pickup in COVID losses; and social inflation driving loss cost increases.

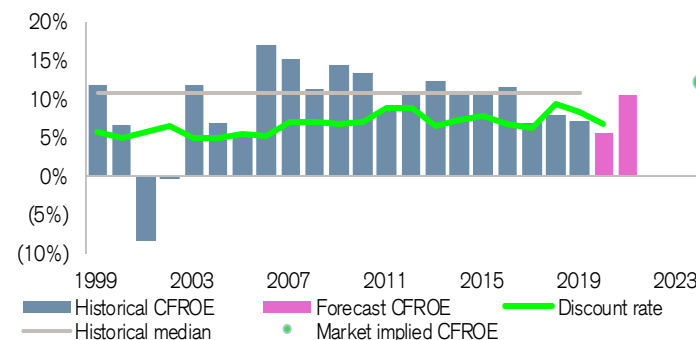
LATEST RESEARCH REPORTS:

- [Why CB's Stock Should Be Outperforming More - Capital Change A Big Deal](#)
- [Positive Read-Through to Chubb \(Outperform\) on P&C competitor AIG's Break-Up Desire](#)

CB N. America Commercial Lines Pricing Growth



CB in HOLT®



HOLT®: Market expectations imply returns on equity in line with historical median levels.

Source: Credit Suisse estimates, Credit Suisse HOLT

Financials

Mortgage Finance

PennyMac Financial Services, Inc (PFSI.N)

Doug Harter

douglas.harter@credit-suisse.com

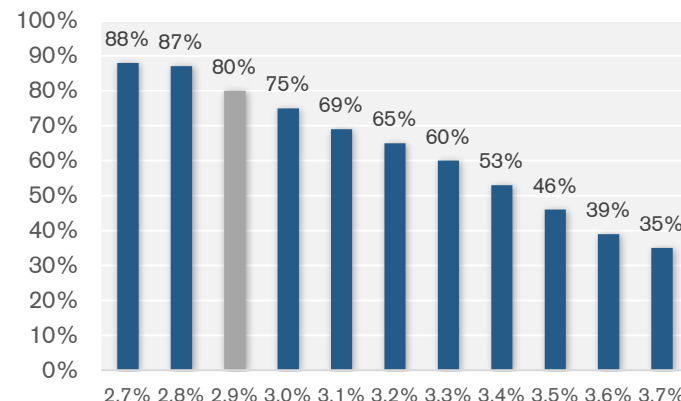
(212) 538-5983

PFSI – Rating: Outperform | Target Price: \$85 | Market Cap: \$4.25B | Current Price: \$61.5

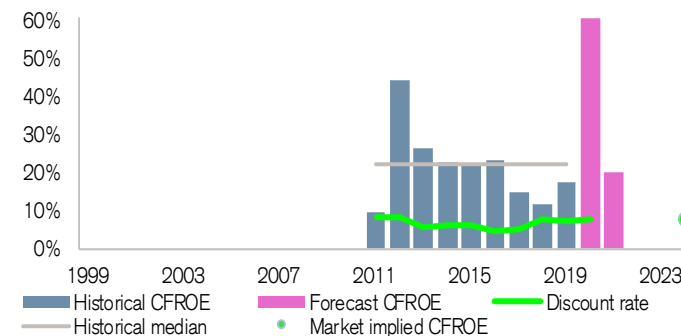
[PFSI in HOLT®](#)

- WHY IS THIS OUR #1 TOP PICK? PFSI is positioned to grow book value significantly over the short and medium term given its outsized level of current earnings from both originations and servicing. Trading at a 13% discount to estimated 2021 book value and 4.3x 2022E EPS, PFSI offers the best risk-reward in our coverage.
- INVESTMENT THESIS: There is significant upside to book value from current levels as strong origination volumes (and margins) should persist into 2021 as the rate environment and continues to drive refinance activity, while industry capacity constraints keep margins attractive. Additionally, PFSI's servicing profitability should continue to persist into 2021 given the EBO opportunity for loans in forbearance.
- CATALYSTS: Continued strength in overall mortgage market (both in terms of volumes and credit) is a catalyst for PFSI's record 3Q/4Q earnings to persist at elevated levels for several quarters. We are modeling some level of moderation in both volumes and margins in both 2021 and 2022; higher than expected refinance volumes and margins through 2021 and 2022 would represent upside to our numbers. Additionally, as forbearance data has been tracking less severe than initially feared, better than expected credit performance will lead to better servicing profitability, and higher than expected EBO revenue and earnings, as loans in forbearance cure without meaningful expense can be redelivered into mortgage bonds at a gain (we estimate to date PFSI has bought out roughly 25% of the mortgages eligible for redelivery).
- DEBATE / PUSHBACK: 2020 was a record year of mortgage volume and profitability, and 2021 and 2022 could see significant declines in earnings power driven by higher mortgage rates and increased price competition among originators to win business.
- OUR VIEW: Even with mortgage rates higher in the past week, at current levels 80% of all 30Y mortgages are refinancable, providing ample run room for volumes to remain elevated over the next 18 months. Originators can keep margins elevated until capacity is no longer constrained, at which point they can begin normalizing margin levels to keep volumes healthy.
- VALUATION: PFSI is currently trading at a 13% discount to our YE2021 book value estimate, and 4.3x 2022E EPS. Our target price of \$85 represents 6.0x our 2022E EPS, and a 20% premium to 2021E book value (vs LT average of a 40% premium). The main risk is lower-than-expected volumes/margins in the origination segment.
- LATEST RESEARCH REPORTS:
 - [Mortgage Banking 2021 Outlook](#)
 - [Mortgage Banking: Refi Eligible Loans to Remain Strong Over 2021](#)
 - [Mortgage Banking Primer](#)

% of 30Y mortgages "in-the-money" vs rates



PFSI in HOLT



HOLT®: PFSI's market implied expectations indicate return on equity will be in line with cost of capital in the future, which we believe is conservative.

Source: Company data, Credit Suisse HOLT

Financials

Payments, Processors, & FinTech

Global Payments (GPN.N)

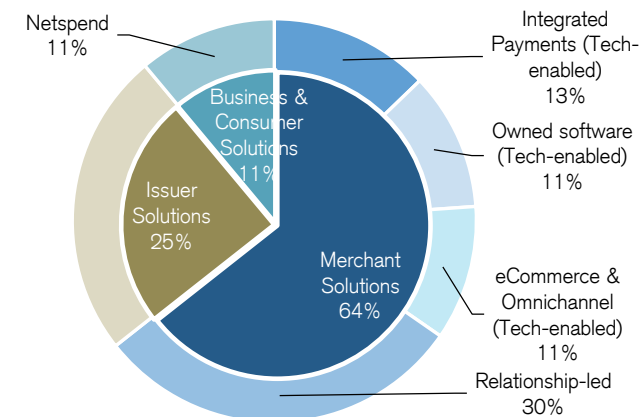
Timothy Chiodo

timothy.chiodo@credit-suisse.com
(415) 249-7921

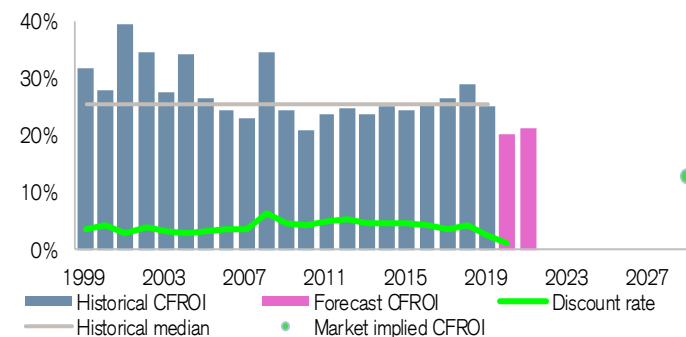
GPN – Rating: Outperform | Target Price: \$220 | Market Cap: \$59.69B | Current Price: \$202.18 **GPN in HOLT®**

- WHY IS THIS OUR #1 TOP PICK? Our longer-term bullish stance remains rooted in the software-led approach, supplemented by consistent, strategic M&A. In a normalized environment, we would expect Global Payments to regain an ~8-11%+ organic revenue growth. And while the acquiring business (SMB-focused) is impacted meaningfully in 2020 (and potentially into 2021 should COVID restrictions persist or SMB failure increase), we continue to expect GPN to return to M&A first amongst the three payments mega-mergers (i.e., lowest leverage and least complex deal), in addition to a best-in-class mgmt. team.
- INVESTMENT THESIS:** While we acknowledge that FIS (Outperform-rated) and FISV (Outperform-rated) are better positioned near-term (more defensive mix, less SMB exposure), the platform (34 markets of local presence & support), positioning at the intersection of software + payments (~40% of acquiring segment software-led), leading global omnichannel capabilities, and prospects for M&A ahead, leads us to believe that GPN is likely to resume its leadership in organic revenue growth coming out of this unfortunate time (i.e., industry low churn rates, 3.5k salespeople vs. ~2k for legacy Worldpay & First Data).
- CATALYSTS:** Potential vertical software and/or international processing assets M&A (although more challenging given current valuations); new partners/client wins, including via AWS; vaccination progress
- DEBATE / PUSHBACK:** SMB exposure subjects Global Payments to elevated attrition, which could impact growth in 2021 given reduced net additions dynamic (although average merchant size is ~\$500k annual volume, a larger SMB); Credit-focused issuer processing business could see great impact vs. debit focused peers (i.e., debit more recession resistant).
- OUR VIEW:** Our exit rate analysis in 2020 suggests the acquiring business was more resilient than that of both FIS (WP) and SQ, perhaps owing to its B2B SaaS mix and diversified merchant portfolio. Exposure to meaningfully depressed verticals (e.g., in-store gaming, outdoor events, medical & dental, education & campus solutions, etc.) should result in a greater bounce back in a post-COVID recovery.
- VALUATION:** Our \$220 target is based on 24x 2022E EPS. Risks are integration (M&A), SMB health, & competitive (acquiring & issuer business).
- LATEST RESEARCH REPORTS:**
 - [Detailed sub-segment exit rate & progression analysis builds vs. Visa & Mastercard data & intra-quarter commentary](#)
 - [Continued improvement into October and a baseline for 2021; Detailed monthly progression analysis](#)
 - [Merchant strength & Issuer TAM expanded; Detailed monthly progression analysis for each sub-segment](#)
 - [Guidance Pull Context & Exit Rate Thoughts; Scenario Update](#)
 - [Payments leader in the right swim lanes](#)

We estimate ~37% of acquiring is software-led



GPN in HOLT®



HOLT®: GPN has earned high and stable returns on capital throughout history. Consensus forecasts a decline from historical levels, and the market implies further deterioration of profitability.

Source: Company data, Credit Suisse estimates, Credit Suisse HOLT

Financials

Payments, Processors, & FinTech

Western Union (WU.N)

Timothy Chiodo

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(415) 249-7921

WU – Rating: Underperform | Target: \$23 | Market Cap: \$9.7B | Current Price: \$23.68

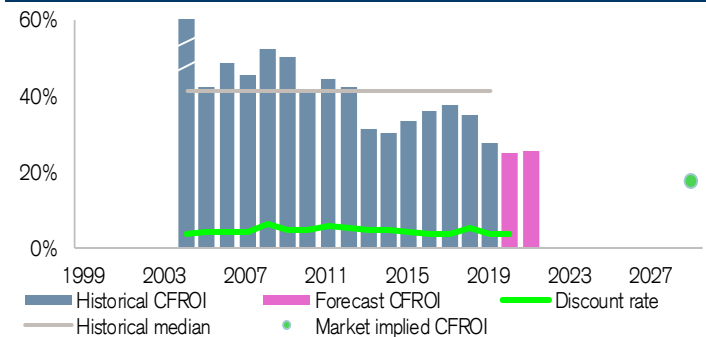
WU in HOLT®

- WHY IS THIS UNDERPERFORM? Prior to the 2020 guidance pull, our view had been that cost saves announced at the 2019 Investor Day were priced in and expected to be achieved in full. Further, we viewed it unlikely that WU (even pre-COVID-19) would be able to generate operating leverage beyond the guide given low-single-digit topline expectations (which we were hesitant to model beyond in a base case scenario). Further, transactions had already turned negative YoY prior to COVID-19.
- INVESTMENT THESIS: WU had been losing share globally ahead of COVID-19 (i.e., years of growth below industry levels), and behavior changes stemming from the coronavirus have the potential to accelerate online mix within the broader remittances sector (a portion of the market where WU enjoys fewer advantages and goes up against FinTech platforms such as Transferwise [\$60b in annualized volumes as of September 2019], Remitly, etc., along with prospects for reduced barriers to entry due to Visa Direct + Earthport).
- CATALYSTS: Social distancing has led to reduced activity, including the closure of some agent locations. Retail money transfer experienced more pronounced YoY transaction declines in late March 2020, which have since moderated, but remained down low double digits through Q4. Given this reduced level of retail transactions combined with the already increasing mix shift to digital channels, we expect pricing pressure to drag on top line and could be more pronounced should retail channels remain weak into 2021.
- DEBATE / PUSHBACK: More bullish investors cite the dividend yield (~4%), value of global retail network, and potential for upside from partnerships/white-labelling and increased adoption of digital (going from ~15% of transactions Q2 2019 to ~32% of transactions in Q4 2020).
- OUR VIEW: Pricing pressure should persist despite dynamic pricing model (also in contrast to the transparent pricing schemes at many digital disrupters), given competition from both incumbent players and FinTechs. COVID-19 impacts compound these issues, and could force consumers to more quickly adopt online alternatives (where WU has fewer competitive advantages vs. retail in-store).
- VALUATION: Our target price of \$23 is based on 10x our 2022E EPS. Risks are regulatory, litigation, competition (particularly Visa Direct + Earthport enabling online competitors), and migration trends.
- LATEST RESEARCH REPORTS:
 - [Q4 Recap: Updated monthly transaction growth progression analysis](#)
 - [Digital business faces tougher comps ahead: Detailed monthly progression analysis update](#)
 - [Intra-quarter trends positive: Digital business facing tougher comps ahead: detailed progression analysis update](#)
 - [Remittances update: Mexico & Guatemala noticeable recovery quarter-to-date; Credit Suisse FinTech conference summaries \(Transferwise, Remitly, WorldRemit\); App download update](#)

We parse out Western Union's 2-year organic, ex-FX, ex-Argentina inflation benefit

	2019	2020	1Q21E	2Q21E	3Q21E	4Q21E	2021E	2022E
Total revenue	5,292	4,835	1,193	1,270	1,339	1,345	5,146	5,299
YoY	(5%)	(9%)	2%	14%	3%	1%	5%	1%
YoY FX Neutral	(1%)	(6%)	0%	13%	6%	6%	6%	3%
YoY organic	(1%)	(6%)	0%	14%	6%	6%	6%	3%
YoY organic ex-FX	3%	(3%)	0%	13%	6%	6%	6%	3%
2-year organic ex-FX	6%	(0%)	(0%)	3%	5%	5%	3%	9%
Argentina Inflation benefit	2%	1%	1%	1%	1%	1%	1%	0%
YoY organic FXN ex-Argentina benefit	1%	(4%)	(1%)	12%	5%	5%	5%	3%
2-year FX neutral ex-Argentina benefit	4%	(3%)	(2%)	2%	3%	3%	1%	8%
Revenue per transaction ex-FX	\$15.58	\$14.07	\$14.01	\$13.94	\$14.31	\$14.25	\$14.13	\$13.99
Take Rate ex-FX	5.03%	4.39%	4.52%	4.44%	4.40%	4.24%	4.39%	4.39%

WU in HOLT®



HOLT®: Consensus forecast returns on capital below current levels while market expectations imply returns at historic lows.

Source: Company data, Credit Suisse estimates, Credit Suisse HOLT

Financials

Specialty Finance

Synchrony Financial (SYF.N)

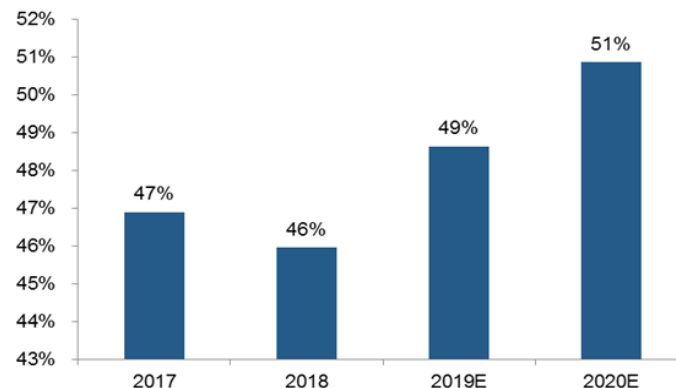
Moshe Orenbuch
moshe.orenbuch@credit-suisse.com
(212) 538-6795

SYF – Rating: Outperform | Target Price: \$50 | Market Cap: \$23.35B | Current Price: \$40

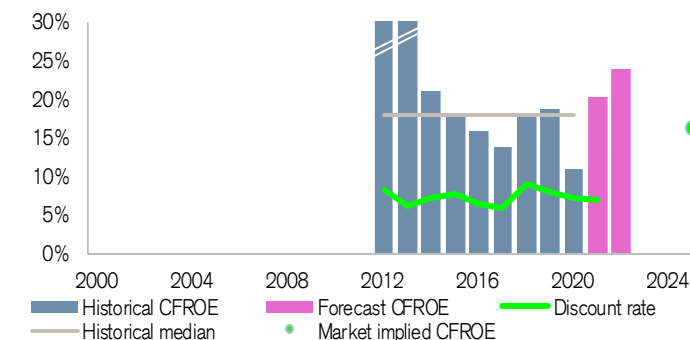
[SYF in HOLT®](#)

- **INVESTMENT THESIS:** We believe Synchrony epitomizes the lend-centric model with potential for strong receivables growth, built-in credit protection through RSA mechanism and higher-than-peer capital return. As a leader in retail cards and financing of large-ticket purchases and healthcare, we believe SYF is well positioned for continued strong growth after the acquisition of the PayPal Credit portfolio, and is protected from rising credit losses (relative to peers). With the most important contracts already renewed, we view this is supportive of the company's business model and future growth. Resumption of buy back should also help with earnings.
- **CATALYSTS:** Strong performance in terms of growth and credit from the PayPal Credit portfolio, higher-than-peer capital return.
- **DEBATE / PUSHBACK:**
 - How much will RSA help mitigate the impact on credit?
 - Will the newly launched programs be able to contribute to future growth?
- **OUR VIEW:** RSA is an advantage of SYF relative to peers and should help the company weather the credit impact due to the coronavirus.
- **VALUATION:** Our \$50 target price is ~11x our 2022 EPS estimate. Risks to our thesis include higher-than-expected provision and lower-than-expected loan growth.
- **LATEST RESEARCH REPORTS:**
 - [Next Catalysts For SYF – Buyback & RSA; Expect \\$4 Bn Repurchase Over The Next Year](#)
 - [Del Continues To Be Encouraging; Organic Loan Growth Accelerating; Outperform](#)
 - [PL – Less Downside In Recession, Even Less This Time; SYF's RSA Reduces Volatility](#)
 - [Synchrony Bull Thesis](#)

RSA Expenses as % of Pre-RSA Pre-Tax Income – SYF is Able to Renew at Favorable Terms



SYF in HOLT®



HOLT®: Market expectations and consensus forecasts indicate long term returns above the cost of capital level.

Source: Company data, Credit Suisse estimates, Credit Suisse HOLT

Financials

Specialty Finance

American Express Co. (AXP.N)

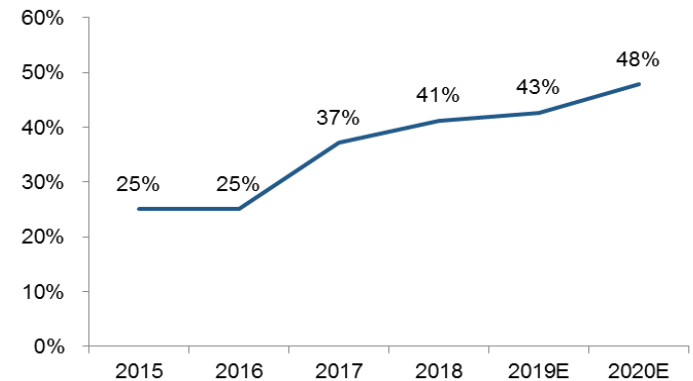
Moshe Orenbuch
moshe.orenbuch@credit-suisse.com
(212) 538-6795

AXP – Rating: Underperform | Target Price: \$115 | Market Cap: \$111.7B | Price: \$138.71

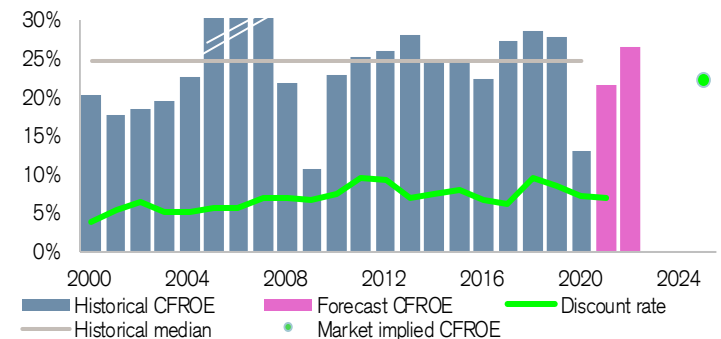
[AXP in HOLT®](#)

- **INVESTMENT THESIS:** We rate AXP Underperform, as we believe rewards competition will pressure returns, coupled with the lack of recovery in T&E spending, leading to total returns lower than the typical stock in our coverage. Continued escalation in rewards competition (particularly within T&E segment) and pressure on billed volumes (particularly impact from the coronavirus) are catalysts for our thesis.
- **CATALYSTS:** Continued deterioration in billed volume growth, particularly in T&E. Structural damage to T&E spending.
- **DEBATE / PUSHBACK:** Should AXP trade at much higher multiple than card peers when the company is most exposed to T&E spending, which has massively deteriorated?
 - Big banks are leveraging both credit card and deposit products to deepen relationship with customers – how is this going to impact AXP which doesn't have a deposit franchise?
 - Pushback – AXP's credit should outperform peers in a recession environment, demonstrated by its lower loss and delinquency. And AXP has been managing rewards expense well.
- **OUR VIEW:** Spending growth has lagged peers in the recovery due to high exposure to T&E. This will continue to pressure revenue growth. Rewards competition has remained intense even during the pandemic
- **VALUATION:** Our target price is \$115, ~14x our 2022 EPS estimate. Risks to our thesis include lower provisions and marketing/rewards expenses.
- **LATEST RESEARCH REPORTS:**
 - [Cobrand/PL Economics Post Contract Changes – Tougher For AXP Than Peers](#)
 - [V vs MA vs AXP: An Update On Approach To Bolt-on Acquisition/Investment](#)
 - [July Growth Strong But Decelerating: Credit Quality Strong](#)

Provision As % of Pretax Income



AXP in HOLT®



HOLT®: Consensus forecasts returns on equity to rebound from 2020 depressed levels. Market expectations suggest a decline in returns from 2022 consensus forecasts, which we believe warranted as intensive rewards competition coupled with decline in billed volumes will pressure returns.

Source: Company data, Credit Suisse estimates, Credit Suisse HOLT

Healthcare

Biotechnology – Large Cap

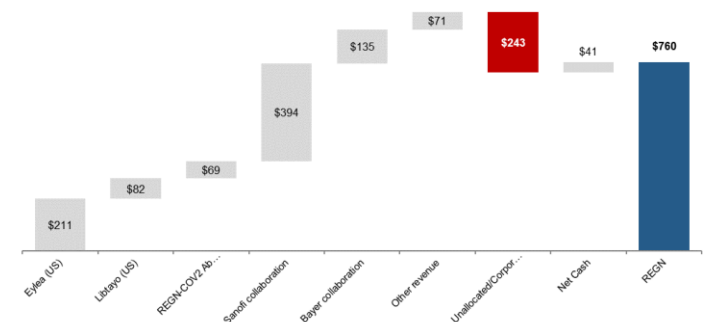
Regeneron Pharmaceuticals, Inc. (REGN.OQ)

Evan Seigerman
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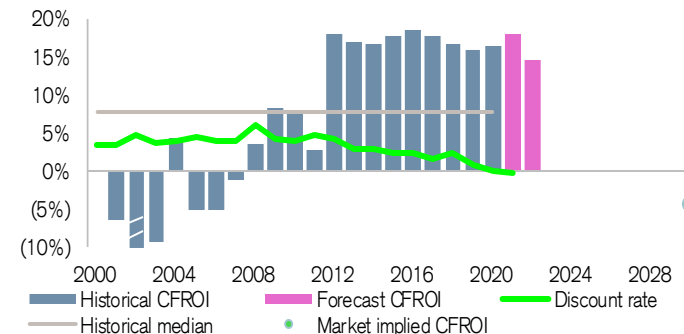
REGN – Rating: Outperform | Target Price: \$760 | Market Cap: \$49.6B | Current Price: \$463.05 | [REGN in HOLT®](#)

- WHY IS THIS OUR #1 TOP PICK? Regeneron is our preferred name given its strong commercial businesses in Eylea and Dupixent, as well as emerging opportunities in their immuno-oncology portfolio and Covid-19 antibody REGN-COV.
- INVESTMENT THESIS: Our bullish view of the company's commercial business is based on the fact that Eylea is likely to remain resilient in 2021 and beyond, as we view the drug as an essential treatment for patients with wAMD/DME/DR since missed doses can lead to vision loss. We also think that competition for Eylea is overstated in consensus estimates. Additionally, we are increasingly constructive on Regeneron's emerging oncology portfolio and the company's efforts to divest from underperforming assets.
- CATALYSTS: Fasinumab longer-term safety in pain in 1Q21/ regulatory submission. Additional updated on the use and sales of the REGN-COV Covid-19 treatment. We also expect pivotal data for Dupixent in Chronic Spontaneous Urticaria and Prurigo Nodularis, as well as initial data from '5678 (PSMAx CD28 bispecific) over the course of 2021. Phase 2 high-dose Eylea could help strengthen the asset's competitive positioning from emerging therapeutics in the space.
- DEBATE / PUSHBACK: Upside from Eylea revenues is well appreciated by investors, with concerns about additional competitive headwinds. The company's Libtayo faces significant headwinds in taking meaningful market share in the competitive oncology space.
- OUR VIEW: Regeneron's underlying business remains strong, with continued strength in Dupixent as Eylea has recovered from softness earlier in the year. Over the course of 2021, we expect additional oncology launches (e.g., Libtayo in NSCLC and BCC) that could help drive upside.
- VALUATION: Our \$760 one-year TP is based on a sum-of-the-parts DCF analysis, which assumes a 7.5% WACC and 1% terminal value growth rate. Risks: Commercial, market, pricing, and regulatory.
- LATEST RESEARCH REPORTS:
 - [Three for Three: Increasing our TP on three successful FDA approvals in Feb 2021, helping to diversify beyond Eylea and Dupixent](#)
 - [Key takeaways from Roche's Angiogenesis Call](#)
 - [U.S. Biotechnology 4Q20 Preview: More of the same? Large Cap lethargy, SMid-Cap enthusiasm against the continuing pandemic backdrop](#)
 - [Covid-19 Antibody Update: REGN-CoV2 shows promising potential as a prophylaxis](#)
 - [CS Healthcare Conference Takeaways: Assessing key growth drivers as we await an EUA](#)
 - [Q&A Our Way: Follow Up Call with Management Post 3Q20 Results](#)
 - [REGN / VRTX: Ash Abstracts incrementally position](#)

Target Price Breakdown



REGN in HOLT®



HOLT®: Market expectations imply a significant decline in future returns on capital relative to historical levels and near term consensus forecasts.

Source: Credit Suisse estimates, Credit Suisse HOLT

Healthcare Biotechnology – SMID Cap Insmmed Inc. (INSM.OQ)

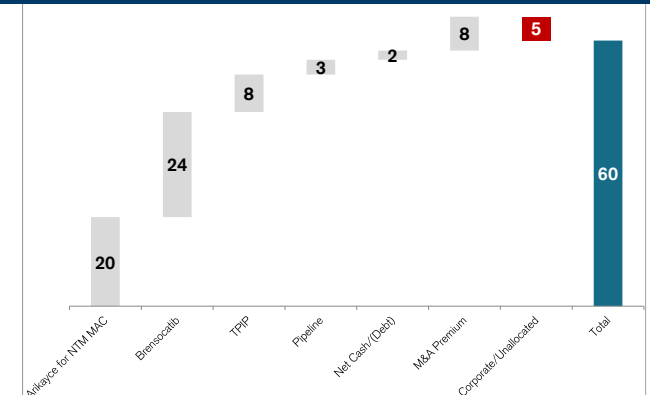
Martin Auster
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(212) 325-6573

INSM – Rating: Outperform | Target: \$60 | Market Cap: \$3.88B | Current Price: \$37.73

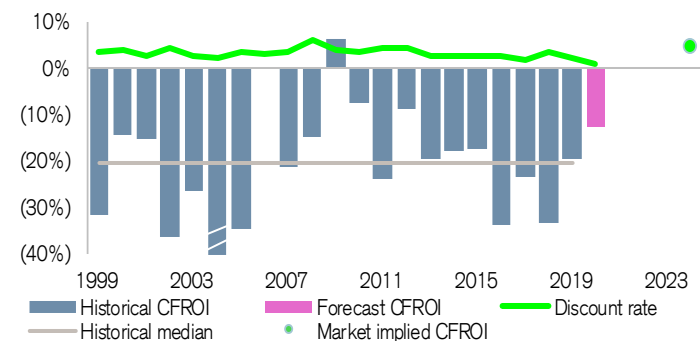
INSM in HOLT®

- WHY IS THIS OUR #1 TOP PICK? We think INSM's pipeline remains undervalued and think the name offers among the highest 2-3 year upside in our coverage universe. It's a longer-term thesis, but we identify five possible sources of meaningful upside going forward: 1) Arikayce rebounds post-COVID and sustains growth on global rollouts; 2) Arikayce front-line label expansion re-energizes growth; 3) Brensocatib Ph2b COPD PoC data from partner Astra could lead to valuable commercial negotiation or elevated takeover interest in INSM; 4) Brensocatib Ph3 bronchiectasis data is a first-mover opportunity in a \$1b+ opportunity (Ph3 data ~2023); 5) Treprostinil Palmitil (TPIP) could be a differentiated inhaled prostacyclin as a dry-powder inhaler with continual exposure over a QD/BID dosing interval.
- INVESTMENT THESIS:** We believe the potential upside from the pipeline remains undervalued. We highlight TPIP and brensocatib as underappreciated value drivers and point out the rare value INSM offers with the potential to exit 2021 with three de-risked products.
- CATALYSTS:** TPIP Ph2a PoC in PAH ~H2 2021, brensocatinib Ph2b data in COPD ~2022, Arikayce front-line PoC ~2022/2023, brensocatinib Ph3 data in COPD ~2023.
- DEBATE / PUSHBACK:** Arikayce sales could be lumpy as the launch continues to be impacted by the pandemic, while the bulk of the catalysts are still several years away.
- OUR VIEW:** We see the INSM story as evolving beyond a quarter-to-quarter revenue focus into a pipeline-driven long-term investment.
- VALUATION:** Our \$60 target price is based on a DCF analysis using a 50% weight for the standalone value and a 50% weight as a potential M&A target. Risks to our thesis include clinical and regulatory.
- LATEST RESEARCH REPORTS:**
 - [A Pipeline Full of Optionality: TPIP Preclinical Profile as Advertised with Clinical Data in 2021](#)
 - [Exploring the Growth Opportunity for Inhaled Therapies in Pulmonary Hypertension: Next-Gen Agents May Reshape the Market](#)
 - [Deep Dive on INS1009: An Early Look at INSM's Next "Free-Call Option"](#)
 - [Reexamining the LT Thesis: Highlighting 5 Way INSM Shares Can See Meaningful Upside](#)
 - [Refreshing Our Arikayce Expectations in Light of the Challenging Pandemic Environment](#)
 - [Corporate Updates Highlight Pipeline's LT Optionality: Raising TP to \\$60](#)
 - [TPIP Ph1 Data Affirms Potential for Differentiation in PAH](#)

Target Price - SOTP (\$/sh)



INSM in HOLT®



HOLT®: Historically the company has generated returns below cost of capital. Market implied expectations suggest returns to be above cost of capital levels in the long term.

Source: Credit Suisse estimates, Credit Suisse HOLT

HCA Healthcare (HCA.N)

Healthcare

Healthcare Technology & Distribution

Teladoc Health (TDOC.N)

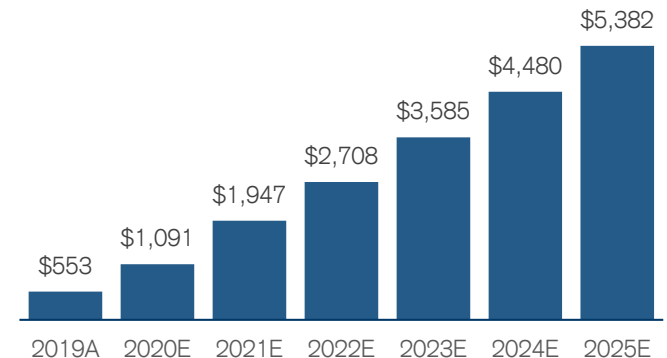
Jailendra Singh

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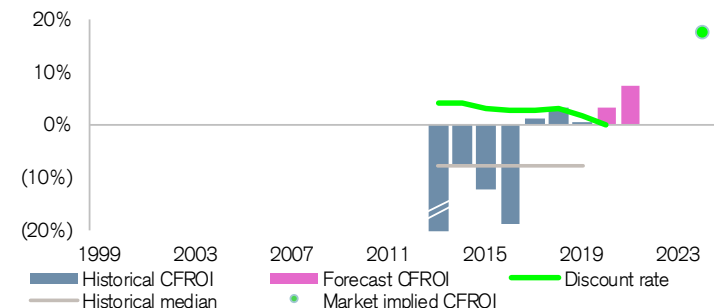
TDOC – Rating: Outperform | Target: \$300 | Market Cap: \$34.1B | Current Price: \$223.39 | [TDOC Proforma in HOLT®](#)

- WHY IS THIS OUR TOP PICK? TDOC is the leading provider of telehealth services, one of the fastest growing subsectors across all of healthcare. Our positive thesis on TDOC has evolved over the past year, beginning with its acquisition of InTouch Health and even more with the merger with Livongo.
- INVESTMENT THESIS: TDOC's revenue model is primarily based on per-member-per-month (PMPM) subscription fees, which provides high visibility, irrespective of how COVID impacts utilization in 2021 and beyond. In terms of benefits from the Livongo merger, with +71 mln lives, TDOC has a unique ability to cross-sell existing clients Livongo solutions, which address chronic care conditions through remote patient monitoring.
- CATALYSTS: 2021 guidance, which will be the first time TDOC provides a comprehensive outlook post the merger with Livongo. Telehealth utilization throughout 2021 as COVID vaccinations continue to ramp. Virtual primary care pilot success (launched with multiple partners, including Aetna/CVS in Jan 21'). Successful cross-sells of Livongo solutions into existing TDOC membership base (Florida Blue & Tyson most notable thus far).
- DEBATE / PUSHBACK: Growth in the B2B2C telehealth market will slow. Revenue synergies with Livongo are not achievable.
- OUR VIEW: While the number of employers offering telehealth may be highly penetrated, TDOC has consistently delivered on expectations by selling additional services (e.g. behavioral health, dermatology, etc) to existing customers. Through the InTouch acquisition, TDOC obtained exposure to a fast-growing provider telehealth market, which has been largely underpenetrated relative to the employer/health plan market. On Livongo synergies, we remain confident TDOC will execute given the acceleration in employers addressing high cost populations combined with Livongo's leading solutions.
- VALUATION: TDOC trades at 22.1x our 2021 and 15.9x our 2022 revenue ests. Our \$300 TP is based on 18x our 2022 revenue estimate of \$2.71 bln. Risks includes any major contract losses, Livongo integration challenges, pricing pressure from increased competition.
- LATEST RESEARCH REPORTS:
 - [Raises 2020/Q4 Outlook; Momentum in Bookings/Cross-Sell Highlighted](#)
 - [Quick Bytes from Our Virtual Healthcare Conference](#)
 - [Updated 2020 Rev Guidance Tracks Our Expectations, EBITDA Slightly Ahead](#)
 - [Q&A Our Way: A New Phase Begins](#)

TDOC Revenue Expectations



TDOC-Livongo Profoma in HOLT®



HOLT®: Consensus forecasts returns on capital to be above cost of capital, while the market is implying a further improvement in returns.

Source: Credit Suisse estimates, Credit Suisse HOLT

Healthcare

Life Science Tools & Diagnostics

IQVIA Holdings, Inc. (IQV.N)

Erin Wright

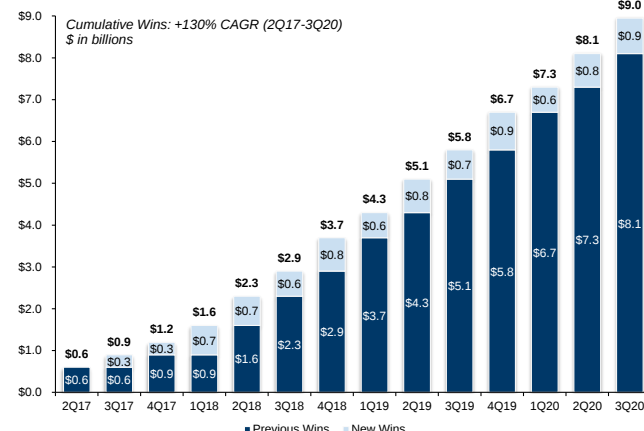
erin.wright@credit-suisse.com
(212) 538-4080

IQV – Rating: Outperform | Price Target: \$204 | Market Cap: \$37.27B | Current Price: \$194.39

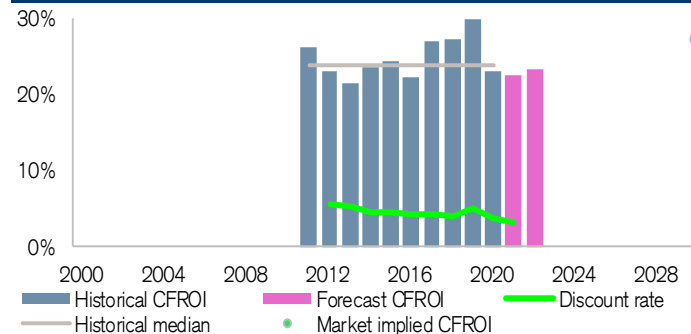
IQV in HOLT®

- WHY IS THIS OUR #1 TOP PICK? We view IQV shares will continue to gain momentum, and while COVID-19 will inevitably drive NT disruption in clinical trials, we emphasize IQV's competitive advantages in its unique CORE-Powered solutions amidst what should be a strong outsourcing backdrop longer term. Positive catalysts could also stem from OCE contract wins and broader technology segment traction.
- INVESTMENT THESIS:** Bookings of \$9.0 billion merger-to-date related to its CORE Solutions should contribute to more meaningful topline growth, ahead of industry, with medium-term guidance calling for +6-9% organic growth from 2019-2022 (excl. COVID-19), which we do view as intact on an underlying basis. While it has clearly set lofty LT growth goals, we view it can leverage its unmatched data assets with its size and scale to capture greater share, while also boasting a relatively diversified customer base.
- CATALYSTS:** 4Q Earnings, Relevant COVID-19 updates, CORE-Powered Awards Updates, OCE Wins, M&A/Capital Deployment.
- DEBATE / PUSHBACK:** Key sources of pushback include speculation around why IQV's revenue growth has not accelerated given its momentous bookings metrics, where its backlog conversion is seemingly edging lower. COVID-19 disruption variables.
- OUR VIEW:** Slowing backlog conversion is not a dynamic unique to IQV, where the metric has notably deteriorated across the industry more broadly due to increasingly more complex trials. Moreover, IQV has already signaled an anticipated revenue ramp over the medium-term, where we note an acceleration related to its new CORE-powered offerings will likely take time.
- VALUATION:** IQV's shares currently trade at 20.1x our 2022E EPS, a discount to its CRO peers (22.2x), which we view as unwarranted given its inherent advantages in its ability to leverage unmatched broader global data assets. Our target price of \$204 is based on a 2022 22.1x P/E multiple, better reflecting these competitive advantages and its underlying growth prospects thereon. Risks include new business volatility, cancellations, and potential COVID impact.
- LATEST RESEARCH REPORTS:**
 - [Life Science Tools & Diagnostics: Year Ahead Outlook 2021](#)
 - [IQV: Diagnosing 3Q: Enhanced 2020/2021 Visibility; Positive CRO Bankshots](#)
 - [State of the CRO Industry: Biotech Funding Remains Robust; CT.gov Analysis](#)
 - [State of the CRO Industry: Trial Enrollment Delays but Normal Cancellation Rates](#)
 - [IQV: Catching Up with IQV](#)

Cumulative IQV CORE-Powered New Business Wins



IQV in HOLT®



HOLT®: Market expectations imply an acceleration in return on capital levels near all time highs.

Source: Company data, Credit Suisse estimates, Credit Suisse HOLT

Healthcare Managed Care United Healthcare Group Inc. (UNH.N)

AJ Rice

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UNH – Rating: Outperform | Target Price: \$415 | Market Cap: \$317.52B | Current Price: \$334.65 [UNH in HOLT®](#)

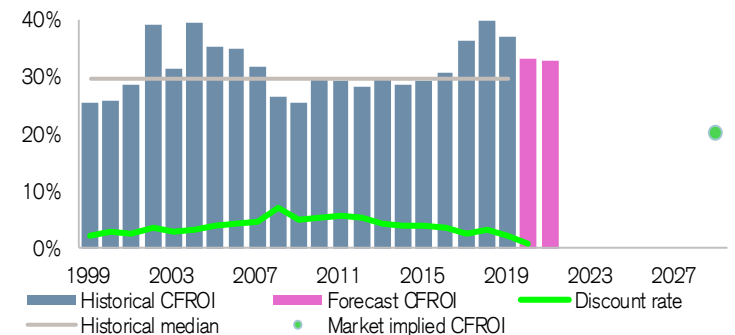
- **WHY IS THIS OUR #1 TOP PICK?** UNH targets attractive LT EPS growth of 13-16%. UNH's health benefits franchise (UHC) is positioned to capture share and grow earnings. UHC's Optum relationship with Optum enables it to manage medical costs effectively, enhancing the competitiveness of its offerings. As a market share leader in every product segment in which it competes, UHC's scale allows it to leverage G&A costs, which given MLR caps has become the primary way for health insurers to drive margin gains.
- **INVESTMENT THESIS:** UNH is a Dow component stock that represents a compelling core holding to benefit from health care's secular growth.
- **CATALYSTS:** Quarterly results; Updates on COVID-19, particularly around the return of elective/deferable procedures
- **DEBATE / PUSHBACK:** Concerns had largely moved past the election and Medicare-for-All risks as proponents such as Warren and Sanders dropped out of contention for the Democratic nomination and as now-President Joe Biden secured the Democratic nomination. Joe Biden has taken a more market friendly position than the other candidates but has raised concerns around a public option and tax rate increase. With regard to COVID-19, debate is around the potential positive impact of elective surgery deferrals on the health insurance business (offset Surgical Care Affiliates) vs. the higher volumes from COVID-19 patients, as well as recession risk.
- **OUR VIEW:** There are a number of puts and takes to consider as the COVID-19 crisis unfolds. We continue to believe that investors will tend to stick with market leading companies such as UNH as this crisis unfolds.
- **VALUATION:** We use SOTP analysis to value UNH shares. We estimate the company's Optum business should trade at roughly 23x our 2022 EPS estimate, while UHC business should trade at 17x our 2022 EPS estimate. Our P/E target for Optum reflects upside in estimates to reflect the Change deal which is expected to close in 2H21. This leads to a blended target multiple of roughly 20x, yielding a price target of \$415. Risks: any deterioration in Medicare Advantage enrollment and margins, adverse impact on UNH's commercial business from an economic downturn, and an increase in health care utilization, along with any regulatory changes that result in adverse effects on the PBM industry business model.
- **LATEST RESEARCH REPORTS:**
 - [UNH: Q4 Follow-up Report: With 2020 Done, the Set-up for 2021 Looks Good](#)
 - [UNH: Q4 EPS & MLR Ahead of Ests; 2021 Outlook Maintained](#)
 - [UNH: Investor Day Takeaways: 2021 Outlook Provides Leeway for Various COVID Outcomes](#)

Consistency in Growth and Execution

\$ in Billions, except EPS	1999	Historical CAGR	2019	2020	2021P
Revenues	\$20	13%	\$242	\$257	\$279
Operating Earnings	\$1	17%	\$20	\$22	\$23
Adjusted EPS	\$0.42	20%	\$15.11	\$16.87	\$18.00

Note: 2021 is based on company projections (midpoint of outlook)

UNH in HOLT®



HOLT®: Market expectations imply a steep decline in returns on capital relative to consensus forecasts and historical median levels.

Source: Company data, Credit Suisse estimates, Credit Suisse HOLT

Healthcare

Medical Supplies & Devices

Edwards Lifesciences Corp. (EW.N)

Matt Miksic

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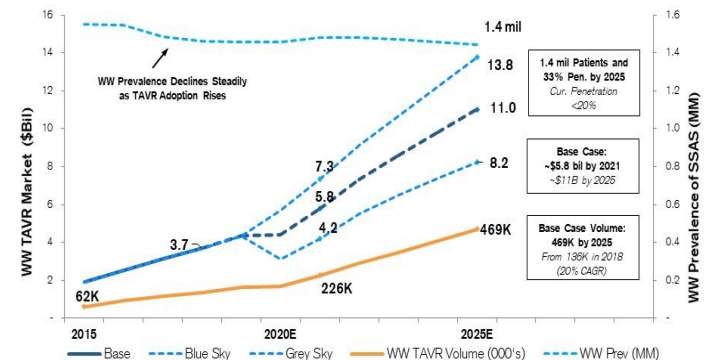
(212) 325-4381

EW – Rating: Outperform | Target Price: \$111 | Market Cap: \$53.56B | Current Price: \$85.77

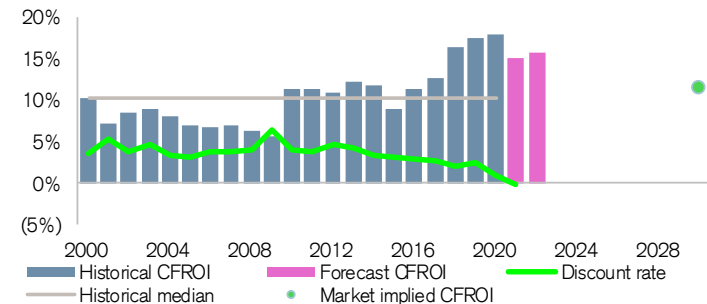
EW in HOLT®

- WHY IS THIS OUR #1 TOP PICK? Key elements of thesis: (1) The size of the long-term TAVR market and the strength of EW's leadership position is not fully reflected in the stock at current levels, in our view; (2) Multi-year expansion of the US TAVR market supports sustained DD sales growth and return to a higher margin mix post COVID-19; and (3) Mitral and tricuspid repair and replacement represent significant additional LT growth opportunities.
- INVESTMENT THESIS:** Impressive Low-Risk TAVR clinical trial results raised interest, awareness and adoption of TAVR in the U.S., and Q4 US TAVR growth of down MSD against tough Y/Y comps in 4Q19 were expected. We have made recent changes to our model to reflect new guidance provided at the recent analyst day and still see further potential upside for the stock (30% potential upside to our \$111 PT, 47% upside to our \$125 'Blue Sky' scenario).
- CATALYSTS:** Q1 Earnings (April), American College of Cardiology (May)
- DEBATE / PUSHBACK:** Bull: Significant growth opportunity and upside to valuation, driven by expanding indications for US TAVR, which remains significantly underpenetrated and underestimated by the Street. TAVR volumes are expected to improve throughout 2021, with DD TAVR growth. Bear: Stock's current valuation already discounts the growth opportunity, and the market may be more penetrated than Bulls believe. Additionally, deferred TAVR procedures may take longer than expected to return with a risk to 2021 numbers given the recent COVID-19 resurgence, suggesting a potentially slightly sluggish start to the year.
- OUR VIEW:** Our bottom-up TAVR center analysis shows that early pre-approval uptake from LR-TAVR raises the top end of the estimated range of potential U.S. TAVR sales for EW by ~\$10-15 mil per quarter. In addition, despite the rapidly evolving nature of the COVID-19 outbreak and uncertainty regarding the scope and duration of its effects, we view our analysis and framework as a reasonable guide for the potential range of effects on EW, and we are comfortable at this point with the Base Case scenario reflected in our new estimates (i.e. middle of the guidance range.)
- VALUATION:** Our \$111 target price is based on a 34.5x EV/EBITDA multiple on our projected 2022 EBITDA of \$2.0 bil. Risks: Product delays, greater share losses, litigation, regulatory/quality issues, and risks related to COVID-19.
- LATEST RESEARCH REPORTS:**
 - [Q4 Results and Guide Bring Few Surprises; WW TAVR In-Line, Guidance Maintained; Tempered Q1 Elective Trends Come Into Sharper Focus](#)
 - [Outlook Positions EW for Solid Growth and Upside to 15-20% 2021 TAVR Growth Guide; Reiterate Outperform and \\$111 Target Price](#)

WW TAVR Market to Exceed \$10 bil by 2025



EW in HOLT®



Source: Company data, Credit Suisse estimates, Credit Suisse HOLT

Industrials

Aerospace & Defense

Spirit Aerosystems (SPR.N)

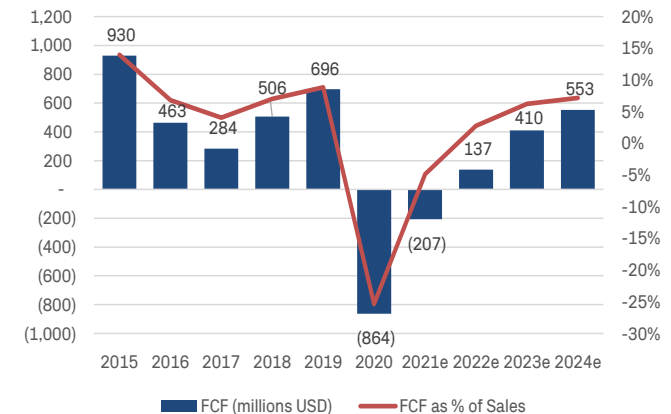
Rob Spingarn
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SPR – Rating: Outperform | Target Price: \$50 | Market Cap: \$4.88B | Current Price: \$46.36

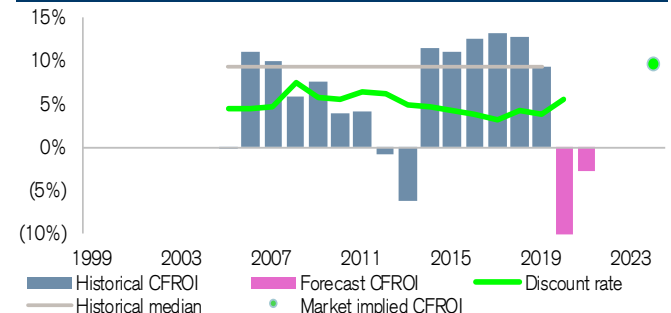
SPR in HOLT®

- WHY IS THIS OUR #1 TOP PICK? We have become more constructive on the narrowbody OE market given our latest expectation for the pace of domestic air traffic recovery (see our 2021 outlook), the willingness of customers to accept NB deliveries, and the rather smooth return of MAX into service. As a company heavily oriented toward narrowbody production rates, SPR is well positioned for a recovery here, and should realize significant operating leverage. Given this, we see scope for upward estimate revisions with room for multiple expansion as well.
- INVESTMENT THESIS: (1) A faster than expected recovery in NB prod. rates with lingering pressure on WB prod. rates offers SPR unique alignment between profitable programs and recovering volumes. (2) We see a credible path for FCF margin as a % of sales to reach 7.2% in FY'24 as NB volumes recover, the benefits of aggressive crisis-era cost cuts linger, and w/c headwinds abate. (3) A more diversified customer mix with more Airbus, bizjet, aftermarket, and defense content helps improve SPR's terminal value. (4) Valuation is attractive (~9%/12% FCF yield on 2023E/2024E, respectively).
- CATALYSTS: (1) Daily data showing a recovery in global passenger air traffic; (2) Boeing/Airbus production rate adjustments (particularly MAX rates); (3) Annual air shows which typically drive strong order flow (Paris/Farnborough); (4) Potential announcement of an A220-500 aircraft from Airbus.
- DEBATE / PUSHBACK: Pushback largely focuses on SPR's terminal value. Specifically, skeptics argue that this terminal value is at risk given that BA will ultimately need to replace the MAX (the largest driver of SPR's revenue), and SPR will not be guaranteed a comparatively sized position on that successor aircraft—potentially creating a large gap in SPR's revenue base when the MAX ends its production run.
- OUR VIEW: BA remains committed to the MAX and any replacement decision is unlikely to be made until 2022/2023 at the earliest, with a replacement not entering the market until ~2030. Additionally, SPR has increasingly diversified its sales mix which should help offset potential pressure here.
- VALUATION: We value SPR using a 50/50 blended 9x EV/EBITDA multiple and 8% target FCF yield on FY'23 CSe both discounted back one year at 7%. This results in our \$50 target price. Risks include the impact of COVID-19, lower than expected MAX production rates.
- LATEST RESEARCH REPORTS:
 - [Relearning to Fly: 2021 Aerospace & Defense Outlook and Industry Primer](#)
 - [2021 A&D Outlook Companion](#)
 - [FCF Expected to Inflect Positive in 2022 as Single-Aisle and Bizjet Markets Recover](#)

SPR Annual FCF and FCF as % of Sales



SPR in HOLT®



HOLT®: SPR has earned high and stable returns on capital for the past 6 years. Consensus forecasts negative returns in the near term, but we expect full recovery in the long run, which the market does not give credit for.

Source: Credit Suisse HOLT

Industrials

Airfreight & Ground Transport

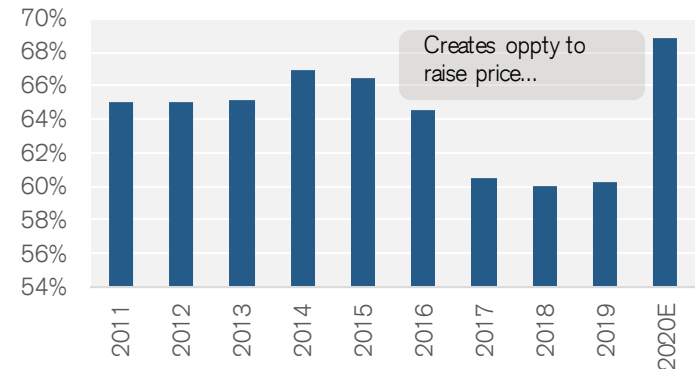
United Parcel Service Inc. (UPS.N)

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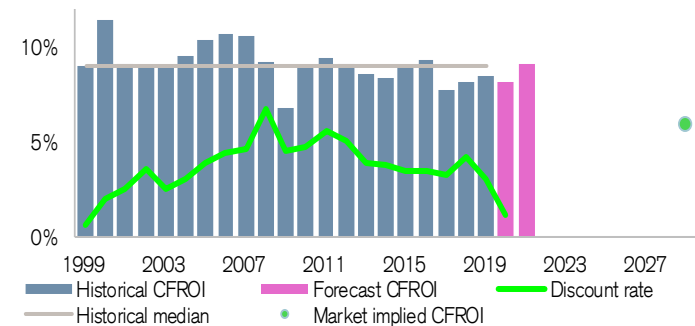
UPS – Rating: Outperform | Target Price: \$205 | Market Cap: \$140B | Current Price: \$161.47 | [UPS in HOLT®](#)

- WHY IS THIS OUR #1 TOP PICK? Balance of power with respect to pricing now sits with the carriers. Capital intensity should come down – driving improved ROIC and FCF. And the new CEO has earned a superlative reputation as a change agent.
- INVESTMENT THESIS: 1) Domestic pricing power has tangibly shifted toward the carriers; (2) capex is likely set to begin its descent from a multi-year high, with further and potentially significant opportunities to reduce capital intensity; and (3) the company is now being led by a change agent with a proven track record of executing on cost performance, efficiency gains, capital discipline, and improved returns. Based on what we believe to be a conservative base case for structural cost reductions, we now see a clear path for meaningful margin improvement at U.S. Domestic, and believe UPS can achieve high-teens EPS growth in 2021 and 2022.
- CATALYSTS: Q1 earnings
- DEBATE / PUSHBACK: There will be cost headwinds over the next few quarters. The risk from AMZN building out a freight network cannot be ignored.
- OUR VIEW: We believe the credible, PSR-like story is underappreciated by the market. What we have heard from CEO Carol Tomé – who led a successful turnaround at Home Depot. – has such striking similarities to Hunter Harrison's PSR operating philosophy were enough for us to re-evaluate UPS' revenue quality, cost improvement, and capital efficiency potential. We estimate that every 50bps of incremental pricing power (our base case) could contribute ~\$260m of revenue, and 50bps of margin expansion at U.S. Domestic translates into \$0.24 of incremental EPS.
- VALUATION: Our 12-month price target for UPS is \$205 and our rating is Outperform. We derive this using a proprietary discounted cash flow model. We start with a base year level of profit consistent with our earnings estimate of \$9.27 per share in 2021. From there, we assume UPS can generate operating profit growth of about 6.0% annually over the subsequent 3-5 year period. Risks include the economy (both domestic and global), fuel prices (particularly jet fuel), a cyclical rotation out of the airfreight sector, impending risks of labor strikes by the pilots, competitive pricing pressures in the domestic market, and further market share losses in its ground division.
- LATEST RESEARCH REPORTS:
 - [UPS: Multiple Roads to Profitability, but This One Consistent with WWHHD](#)
 - [UPS: Pricing Going Up, Capital Intensity Going Down, and A Change Agent to Capitalize on it All](#)
 - [A Big Ship to Turn, but Headed in the Right Direction: WWHHD No Longer Just a Question for the Rails...](#)

Capacity Utilization Analysis (CS Estimate)



UPS in HOLT®



HOLT®: Structural cost reductions and declining capital expenditure will drive returns on capital higher, while market implied expectations suggest that returns will be below historical levels, not giving credit to our expected improvement.

Source: Company data, Credit Suisse estimates, Credit Suisse HOLT

Industrials

Airfreight & Ground Transport

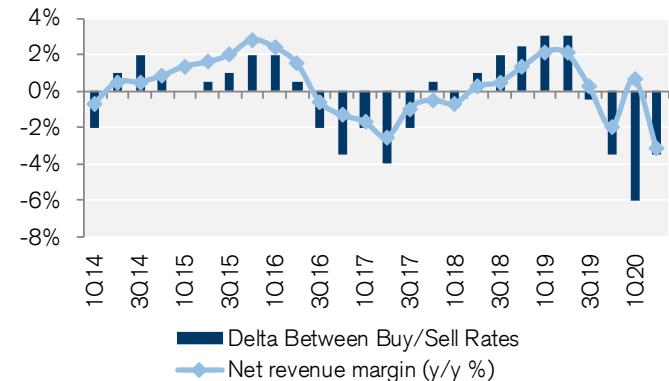
CH Robinson (CHRW.OQ)

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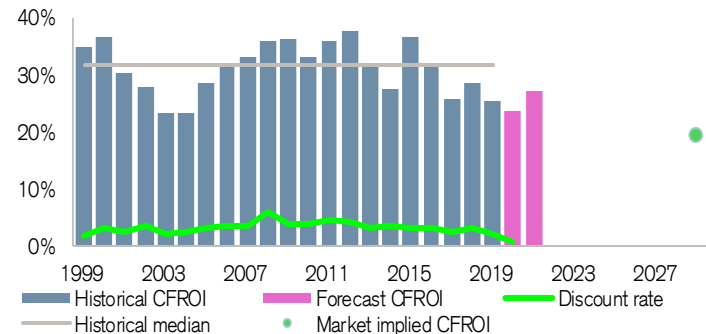
CHRW – Rating: Underperform | Target Price: \$85 | Market Cap: \$12.34B | Current Price: \$92.22 **CHRW in HOLT®**

- WHY IS THIS UNDERPERFORM? Over the long term, we remain concerned that increased competition and the race towards the digital freight platform will lead to net revenue margin erosion and higher incremental spending on technology.
- INVESTMENT THESIS: Our primary concern remains that a structural shift in the business model has permanently compromised CHRW's ability to generate operating leverage from net revenue growth. Since 2009, EBIT has grown 2% slower than net revenue on average versus a positive delta of 5% pre-recession. Increased competition from new entrants likely to infringe on margins.
- CATALYSTS: Q1 earnings.
- DEBATE / PUSHBACK: CHRW may experience some near term cyclical benefits as the strong freight market may result in more profitable spot opportunities – leading to higher net revenue dollars.
- OUR VIEW: Over the long term, secular headwinds will likely cut into profits as the market becomes increasingly more competitive. This will keep a lid on pricing potential as well as driving up expenses given that the company will have to invest more heavily in technology in order to stay competitive.
- VALUATION: Our DCF-derived target price is \$85. The stock is currently trading at a P/E of 19.3, which is in line with the 5-year average of 19.1x. The stock has traded in a range of 15.1x-25.2x over the past 5 years. The key risk is a cyclical rotation into defensive non-asset based transport stocks.
- LATEST RESEARCH REPORTS:
 - [CHRW: No Quick Return of Capacity](#)
 - [2021 Trucking, A/F & Logistics Outlook](#)

Net Revenue Margins Y/Y vs. Buy/Sell Spreads



CHRW in HOLT®



HOLT®: Market expectations for CHRW imply that returns on capital will decline in the long term, given the structural shift in the business that will drive down profitability.

Source: Company data, Credit Suisse HOLT

Southwest Airlines Co. (LUV.N)

Joe Caiado

jose.caiado@credit-suisse.com

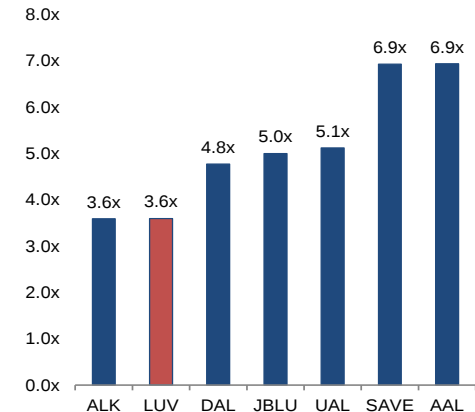
(212) 325-6771

LUV – Rating: Outperform | Target Price: \$62 | Market Cap: \$34.29B | Current Price: \$58.06

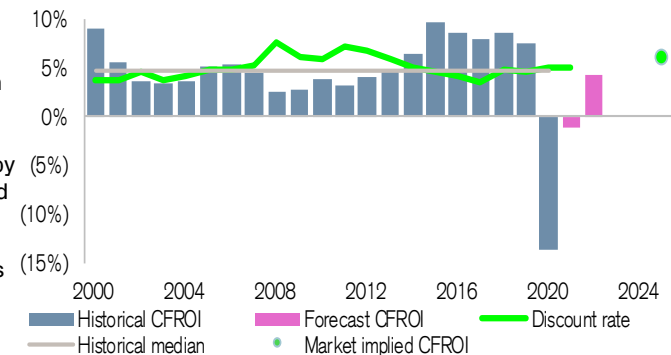
[LUV in HOLT®](#)

- WHY IS THIS OUR #1 TOP PICK? LUV is not only a good way to invest in the near-term recovery in leisure travel demand, but it is also our favorite multi-year strategic investment with an exceptionally 'clean' balance sheet relative to peers and plenty of self-help potential that positions LUV to stage an aggressive comeback.
- INVESTMENT THESIS:** Southwest has a history of best-in-class returns and cash generation, and we believe the airline is the best positioned to quickly pay down the incremental debt raised in 2020 and restore its financial strength. While shares are likely to remain volatile near-term and trade on broader COVID-related trends, we take comfort in LUV's investment grade balance sheet and unique \$3B net cash position, and continue to believe there is compelling value in the stock long-term. The pandemic provides a unique opportunity for LUV to play offense by adding new city pairs to its network and lead the domestic recovery in a low-fare environment. New GDS integration will also allow Southwest to tap into a new revenue pool & compete with the majors for corporate travel as it begins to rebound. We also see a compelling self-help opportunity for LUV through fleet modernization, driving multiple long-term efficiencies (at minimal capital expense in 2021, given the recent settlement with Boeing for MAX damages), as well as additional scope for structural cost improvement via new/improved aircraft deals with BA, as well as airports & third-party vendors.
- CATALYSTS:** Potential third round of government airline stimulus (Payroll Support Program); Q1 earnings in April.
- DEBATE / PUSHBACK:** Southwest was already overstaffed pre-coronavirus due to the grounding of the 737 MAX since early 2019, carrying excess pilots relative to the size of its fleet & schedule, with 34 MAX aircraft already parked in the desert before the crisis. Consequently, LUV has more work to do to rationalize its excess overhead to position for the new near-term normal.
- OUR VIEW:** We expect that LUV will largely be able to achieve the majority of the required labor savings through voluntary separation agreements, limiting the need for involuntary layoffs. In addition, our expectation that LUV can fly a 2021 summer schedule that is just ~10-20% below 2019 levels means that the overall need to reduce headcount is lessened, and some interim overstaffing in the current off-peak shoulder season (Q1) is supported by a robust liquidity position. Ultimately, LUV's strong likelihood of emerging from the current crisis as a stronger and more profitable competitor should be supportive of a multiple re-rating.
- VALUATION:** Our \$62 TP for LUV is based on a target 5.6x multiple applied to our 2023 EBITDAR estimate. Risks include a prolonged US economic recession due to the Coronavirus, a potential new testing requirement for domestic travel, the speed of the demand recovery, oil price volatility, and event risk (weather, terrorism).
- LATEST RESEARCH REPORTS:**
 - [Unique net cash position provides comfort amid continued near-term uncertainty](#)
 - [Starting to play a little offense](#)
 - [Everyone LUVs a comeback – Upgrading to Outperform; Positioned for strategic long-term gains](#)

U.S. Airline Valuations – 2023 EV/EBITDAR



LUV in HOLT®



HOLT®: Market implied expectations imply long term returns on capital at historic median levels.

Source: Company data, Credit Suisse estimates, Credit Suisse HOLT

Industrials

Autos & Auto Parts

Aptiv PLC (APTV.N)

Dan Levy

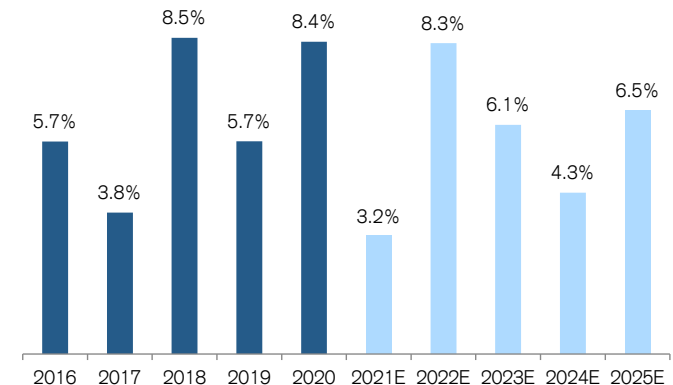
dan.levy@credit-suisse.com
(212) 325-4617

APTV – Rating: Outperform | Target: \$165 | Market Cap: \$41.78B | Current Price: \$154.76

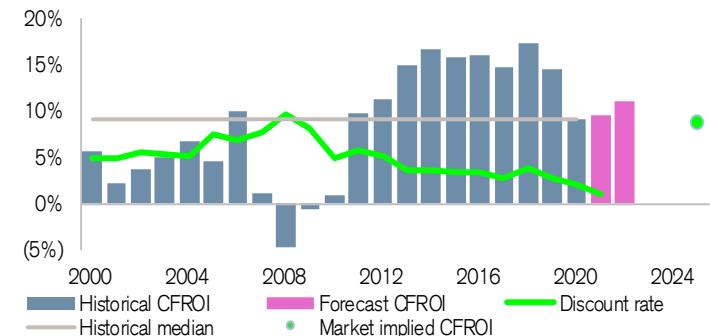
[APTV in HOLT®](#)

- WHY IS THIS OUR #1 TOP PICK? Exposure to the right products and trends provide APTV with one of the best outgrowth outlooks in the space. On top of this, APTV is one of the best positioned companies in our coverage in balancing our 'Two Clocks' industry framework – the 'near'/cyclical + the 'far'/secular.
- INVESTMENT THESIS:** We expect APTV to avg. ~6pts of organic revenue growth over market through 2025, one of the best growth outlooks within the space. The growth is driven by product lines such as Active Safety and High Voltage Electrification, which are tied to key secular trends in the automotive industry (i.e. Autonomy, Electrification, and Connectivity). Strategic decisions that prioritize cash flow (i.e. Autonomous JV with Hyundai) and a strong balance sheet also help to support APTV's growth. This combination of benefits should keep APTV favored by thematic and ESG investors. Moreover, we expect APTV has ample liquidity to navigate production shutdowns and a challenging industry backdrop.
- CATALYSTS:** Increased active safety, electrification, and connectivity uptake rates will benefit the stock, along with progress in new tech such as Smart Vehicle Architecture, High Voltage Electrification, and Motional (APTV's autonomous driving JV with Hyundai).
- DEBATE / PUSHBACK:** Valuation is rich given APTV is still an auto company exposed to the cyclical light vehicle end markets. However, we'd note that mid/high single digit organic revenue outgrowth over the market in 2018-20 despite volatile end markets provide a strong proofpoint of the company's ability to withstand tough macro. Moreover, thematic/ESG investors may be willing to pay a premium.
- OUR VIEW:** Even factoring in turbulent end markets, we expect that APTV's strong growth-over-market, favorable exposure to secular industry trends, and strategic actions focused on FCF will drive long-term value creation.
- VALUATION:** Our \$165 TP assumes a 15.5x multiple on \$3bn of FY'22E EBITDA. We view the multiple as reasonable given APTV's best-in-class organic revenue outgrowth, as well as optionality related to electrification and autonomous driving. Risks: end market volatility, margin headwinds from tech spend.
- LATEST RESEARCH REPORTS:**
 - [In a market rewarding premium narratives, APTV deserves premium valuation](#)
 - [Mgmt. meeting takeaways](#)
 - [Four ways the APTV narrative can accelerate](#)
 - [Key takes from mgmt. meeting: LT oppty still intact amid best-of-breed narrative](#)
 - [Takes on APTV/Hyundai AV JV post mgmt. meetings](#)

APTV Organic Revenue Growth-Over-Market



APTV in HOLT®



HOLT®: Expectations implied by the current stock price are below historical levels as well as near term consensus forecasts.

Source: Company data, Credit Suisse estimates, Credit Suisse HOLT

Industrials

Electrical Equipment & Multi-Industry

Emerson Electric (EMR.N)

John Walsh

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(212) 538-1664

EMR – Rating: Outperform | Target Price: \$101 | Market Cap: \$53B | Current Price: \$88.44

[EMR in HOLT®](#)

- WHY IS THIS OUR #1 TOP PICK? In a choppy macro, we favor EMR's self-help levers and strong FCF generation. EMR sees a challenging growth environment and is pulling internal levers to drive margin expansion. The company has completed a major cost reset and sees 2019-2023 restructuring investment to result in \$650mn+ of savings. Its digital acceleration/ transformation creates potential for long-term growth and margin accretion. Emerson has built out a \$1.1B standalone software business through organic and acquisition spending. Automation Solutions customers are starting to transition to cloud and subscription models, where software can act as a key differentiator. Acquisition of OSI Power illustrates the company's strategy to accelerate software growth. The excitement on digital is echoed by peers HON, ROK, and Siemens.
- INVESTMENT THESIS: We think EMR's proactive restructuring drives margin expansion in a slow growth macro environment. We see commodity volatility as near-term clouds over the LNG story, but not detractors to our long-term view. While we expect to see a stepdown in North American O&G investments, EMR's upstream activity is heavily weighted towards international. We expect EMR to generate FCF in excess of 100% of net income for the next several years as it pulls working capital out of acquisitions (V&C, Tools). Given strong free cash flow generation and balance sheet optionality, current stock levels present an attractive entry point. We also expect EMR to benefit from increased hybrid industry and software investments in the U.S. post COVID.
- CATALYSTS: FQ2 (March) earnings, monthly orders release.
- DEBATE / PUSHBACK: Potential for negative earnings revisions driven by E&P CapEx reduction and China HVAC weakness; Orders continue to track below long term targeted range; LNG development slower than expected; long term valuation contraction due to cycle timing and energy exposure.
- OUR VIEW: We see several internal levers that EMR can pull to drive margin expansion including footprint reduction, organizational structure, and G&A. Further, Emerson's 2020 Standalone Software & Associated Services exceeded \$1B, is growing HSD short-term, and is accretive to margin. Emerson technology can also be leveraged throughout the hydrogen value chain with \$750mn+ estimated automation opportunity.
- VALUATION: Our \$101 target price is based on 23.0x our CY22 EPS estimate of \$4.38. Our TP equates to a FCF yield of 4.9%. Risks include the pace of large project development, oil price volatility, HVAC demand, and capital deployment decisions.
- LATEST RESEARCH REPORTS:
 - [EMR: An Evolution Not A Revolution - 2021 Investor Conference](#)
 - [EMR: Several Catalysts Still in Front of Stock](#)

EMR Automation Solutions FY20 Overview

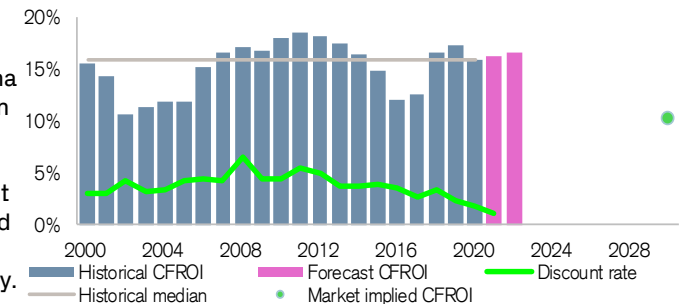
Automation Solutions Industry Exposure

Process \$101B	Hybrid \$43B	Discrete \$59B
Power & Renewables	Life Sciences	Automotive
Pipelines & Terminals	Food & Beverage	Industrial & Commercial
Refining	Metals & Mining	Specialty Machinery
Upstream	Pulp & Paper	Medical
Chemical & Clean Fuels		Packaging

Accelerated Growth in Attractive Markets

Chemical & Clean Fuels	Power & Renewables	Life Sciences
Chemical	North America Power	Life Sciences
9.1% Sales CAGR	2.4% Sales CAGR	13.0% Sales CAGR
2.3pts Participation Gain	8.5pts Participation Gain	4.1pts Participation Gain

EMR in HOLT®



HOLT®: EMR's returns on capital increased significantly in the last 3 years. Consensus forecasts a decline in returns back to historic median levels and the market is pricing in significant further decline.

Source: Company data, Credit Suisse estimates, Credit Suisse HOLT

Industrials

Engineering & Construction

MasTec, Inc. (MTZ.N)

Jamie Cook

jamie.cook@credit-suisse.com
(212) 538-6098

MTZ - Rating: Outperform | Target Price: \$114 | Market Cap: \$6.6B | Current Price: \$88.97

[MTZ in HOLT®](#)

WHY IS THIS OUR #1 TOP PICK? MTZ is currently trading at a discount to the group and PWR on FY21 EBITDA. However MTZ expects \$10B in revenues in the next few years with double digit EBITDA margins withstanding an oil and gas downturn, driven by secular growth in Communications and significant growth on the top line and margins in CE&I and ET. The Biden administration is expected to provide strong support for the end markets MTZ participates in and earnings power is underappreciated in our view. Furthermore, as oil and gas becomes a smaller piece of the pie we believe this in turn can result in an improved valuation as segments outside of gas pipeline garner a higher multiple given secular growth tailwinds. We believe the change in business mix to more secular growth end markets away from oil and gas will drive a re-rate story for MTZ similar to peers.

INVESTMENT THESIS: MTZ is one of the largest contractors in wireline and wireless spend and gas pipeline with a growing presence in Clean Energy & Infrastructure. We believe MTZ can successfully manage through the gas pipeline downturn driven by growth in the remaining segments. We believe this in turn can result in an improved valuation as segments outside of gas pipeline garner a higher multiple given secular growth tailwinds. MTZ sees opportunity to structurally improve free cash flow as gas pipeline becomes smaller. We believe the change in business mix to more secular growth end markets away from oil and gas will drive a re-rate story for MTZ similar to peers.

CATALYSTS: Potentially an infrastructure bill or increased spending on clean energy, infrastructure, and telecommunications/5G networks, midstream project announcements.

DEBATE / PUSHBACK: MTZ may not be able to fully re-rate if it continues to meaningfully participate in oil & gas markets. MTZ has yet to demonstrate its ability to achieve \$10B revenues from the \$6.5B expected in 2020 as well as to maintain a double digit EBITDA profile in the business as oil and gas declines.

OUR VIEW: We believe MTZ can re-rate as the company looks to offset significant declines in the pipeline business via growth in the top line and margins in secular growth markets including Communications, Clean Energy & Infrastructure, and Electrical Transmission.

VALUATION: Our target price of \$114 reflects an EV/EBITDA ratio of 9.0x on our 2023 estimate, discounted back. Risks: the market fully appreciating the growth opportunities in oil & gas and communications, as reflected by MTZ's premium multiple today vs. its trading history; communications customer capex risk, in particular related to the AT&T and Time Warner deal; oil & gas / commodity risks; and difficulties driving profitable growth that are endemic to the engineering & construction industry given tough, broad based competition.

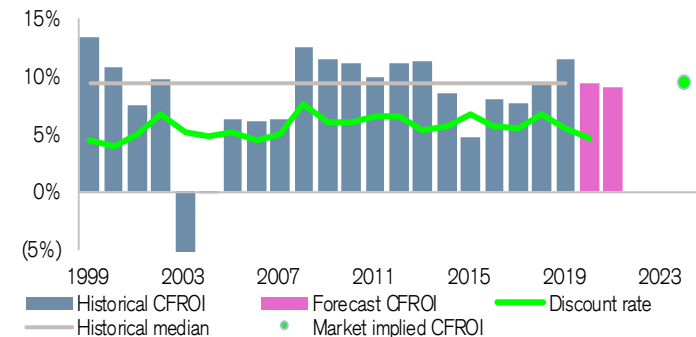
LATEST RESEARCH REPORTS:

- [Management Meeting Takeaways](#)
- [MTZ Q3'20](#)
- [Highlights from CS Industrials Conference](#)

EBITDA Can Reach \$800M in a Bear Scenario for O&G

2022 Analysis	Bear Case	Bull Case
Revenues (\$M)		
Communications	3,000	3,000
Oil and Gas	1,500	2,300
Electrical Transmission	600	600
Clean Energy and Infrastructure	2,300	2,300
Margins		
Communications	11%	11%
Oil and Gas	19%	19%
Electrical Transmission	9%	9%
Clean Energy and Infrastructure	9%	9%
<i>minus Corporate & Other</i>		
Adjusted EBITDA	800	940

MTZ in HOLT®



HOLT®: MTZ's current valuation imply future returns on capital are below historical levels, which underappreciates the re-rating potential driven by structural tailwinds.

Source: FactSet, Credit Suisse HOLT

Industrials Machinery Caterpillar (CAT.N)

Jamie Cook

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(212) 538-6098

CAT – Rating: Outperform | Target Price: \$235 | Market Cap: \$118.94B | Current Price: \$219.76 **CAT in HOLT®**

WHY IS THIS OUR #1 TOP PICK? We believe CAT's 2020 earnings are at a cyclical trough and see potential for most markets improving in FY2021. Specifically, CAT should benefit from the NA Construction and Resource equipment replacement cycle, which are recovering in tandem and both positive to mix. Furthermore, CAT could benefit from a cyclical bounce in the energy markets towards the latter part of FY 2021 which is also under earning. We see opportunity for healthy operating leverage after significant dealer inventory cuts in 2020 and significant restructuring in the last down cycle driving improved cycle earnings.

INVESTMENT THESIS: CAT is an industrial bellwether with a long cycle reflected in its sales which are highly correlated with the ISM PMI on a 3-month lag. CAT has undertaken significant restructuring since the prior industrial recession reducing \$1.8B in structural cost and 25M of square foot capacity and earnings power and cash flow generation is underappreciated in our view. CAT retail sales have remained muted with Machines slowly recovering and E&T still near trough. Commodity prices including copper, iron ore and nickel have been strengthening and the depressed mining business should begin to recover. The oil and gas business should see a cyclical bounce as oil prices improve however exposure continues to weigh on the multiple in our view. CAT substantially reduced channel inventory in 2020 (\$2.5B by year end) and should benefit from operating leverage in 2021.

CATALYSTS: Improving trends in CAT retail sales, commercial construction datapoints including mining capex, infrastructure bill.

DEBATE / PUSHBACK: Concerns on the macro, valuation, lack of investment thesis outside of the cycle compared to peers, commitment to traditional energy after the Weir acquisition, lack of marketing its alternative energy and ESG efforts to investors

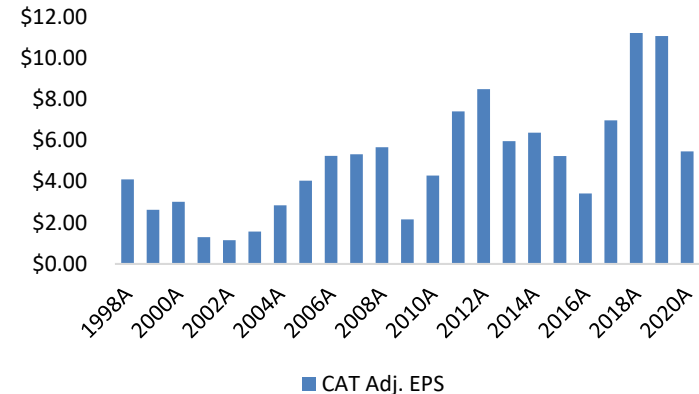
OUR VIEW: We believe CAT's 2020 earnings are at a cyclical trough and see potential for most markets improving in FY2021. Specifically, CAT should benefit from the NA Construction and Resource equipment replacement cycle. We see opportunity for healthy operating leverage after significant dealer inventory cuts in 2020 and significant restructuring in the last down cycle driving improved cycle earnings.

VALUATION: Our \$235 target price for CAT is based on 18x our 2023 EPS estimate, discounted back. This is a historically in-line multiple at this point in the cycle. Risks: general economic risk, rising material costs or supply chain distortions, execution risk, and dealership consolidation. We believe there is risk to CAT's order book if emerging/commodity markets begin to weaken, which could drive cancellations.

LATEST RESEARCH REPORTS:

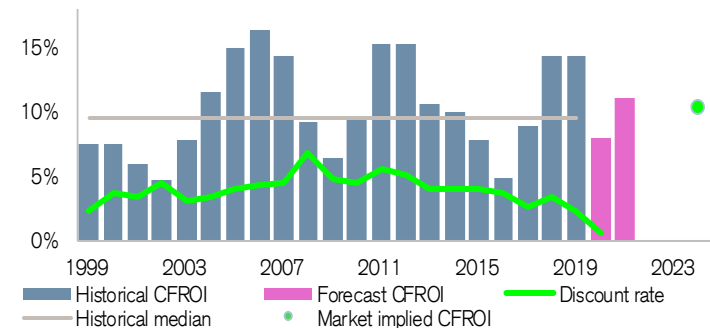
- [CAT Q4'20](#)
- [Management Meeting Takeaways](#)

CAT Has Earned Higher Peak and Trough EPS



■ CAT Adj. EPS

CAT in HOLT®



HOLT®: CAT's valuation imply only a small improvement in returns from 2020 levels, which is a cyclical trough, underappreciating the full improvement potential, especially thanks to restructuring and operating leverage.

Source: Company data, Credit Suisse HOLT

Services

Business Services

Moody's Corporation (MCO.N)

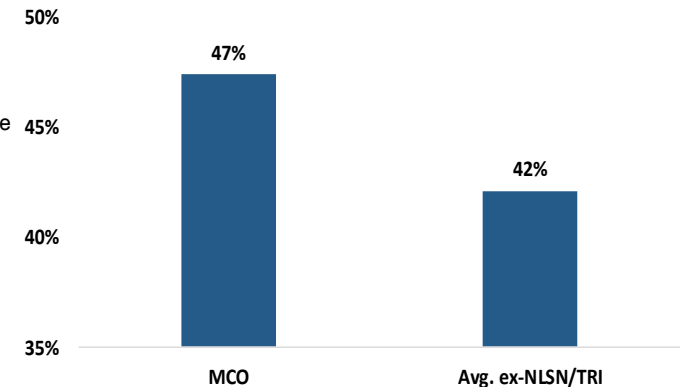
Kevin McVeigh

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(212) 325-1751

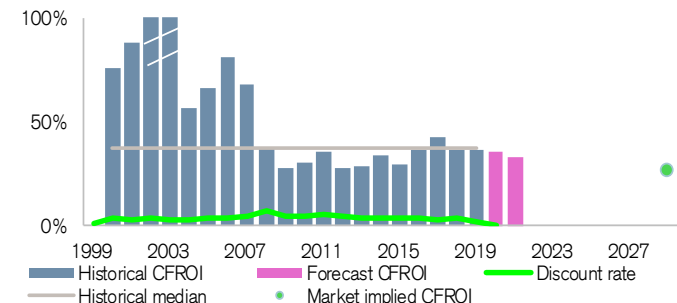
MCO – Rating: Outperform | Target Price: \$335 | Market Cap: \$52.85B | Current Price: \$282.47 [MCO in HOLT®](#)

- WHY IS THIS OUR #1 TOP PICK?** We are positive on the MCO stock long-term as we see best-in-class franchises amid sustainable LDD EPS growth. We recognize MCO has an impressive ratings franchise amid moated data assets—MIS [~40% ratings market share for decades], BvD, RDC, Reis, ERS, etc.—with margin upside [especially MA]. We believe total business should sustain high margins [high-40%] and robust FCF [mid-to-high 30% FCF margin] regardless of the issuance environment.
- INVESTMENT THESIS:** Mix and efficiency initiatives should drive margins higher—notably in MA—where we believe high-20% is not a ceiling. Solid revenue growth in MA (HSD growth with BvD adding 200-300bps to growth) and cycle-to-cycle growth in MIS combine to drive a reasonable growth framework amid balanced margin expansion. Revenue growth, margin expansion, and ~1-3% share count reduction drive sustainable, double-digit EPS growth. We see this business/financial profile attracting an enviable long-term focused shareholder base, supporting shares even in a volatile environment.
- CATALYSTS:** Q1 earnings [likely late April] including updates to 2021 issuance outlook.
- DEBATE / PUSHBACK:** While we monitor Moody's high ratings exposure—and less attractive MIS subscription mix relative to peers [lower by ~1000bps]—we believe total business should sustain high margins [high-40%] and robust FCF [mid-to-high 30% FCF margin] regardless of the issuance environment (i.e. MCO increased margins in MIS and MA during Q3/418 as incentive comp and other expenses are nimbly adjusted).
- OUR VIEW:** While we appreciate MCO's exposure to ratings [MCO ~60% of revenues vs. SPGI ~45%], we recommend MCO as investors own CRAs for ratings + secular data analytics/indices growth [M/HSD organic growth], margin expansion [both have internal margin expansion levers], and impressive ROIC [~30-50%]. We believe secular tailwinds are too great to ignore given long-tailed opportunities including China, ESG, private markets, and market data [i.e. BvD, RDC, etc.].
- VALUATION:** Our \$335 TP is ~22x EV/EBITDA. Our EV/EBITDA compares to a 3yr range (13.0x-24.0x) + avg. (18.2x). Above-average multiples are okay as MCO has remixed to more workflow solutions + substantial runway in TAM in addition to what we believe are conservative estimates. Risks: 1) issuance wanes as central bank stimulus wanes; 2) Moody's Analytics margins remain at current levels amid trend growth; 3) regulatory risk and 4) disruptions to issuance from COVID-19 economic impacts.
- LATEST RESEARCH REPORTS:**
 - [Credit Rating Agencies: Positioning for a data revolution NOT evolution](#)
 - [Smooth CEO transition supports bullish view](#)

MCO margins structurally higher vs. peers



MCO in HOLT®



HOLT®: MCO has earned very high and stable returns on capital historically, the market is pricing profitability to slightly below historical levels.

Source: FactSet, Credit Suisse HOLT

Services Business Services Iron Mountain Inc. (IRM.N)

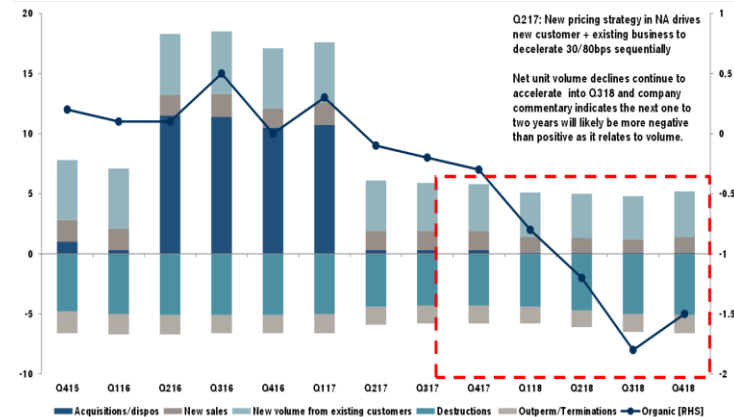
Kevin McVeigh
kevin.mcveigh@credit-suisse.com
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IRM – Rating: Underperform | Target Price: \$18 | Market Cap: \$10B | Current Price: \$34.73

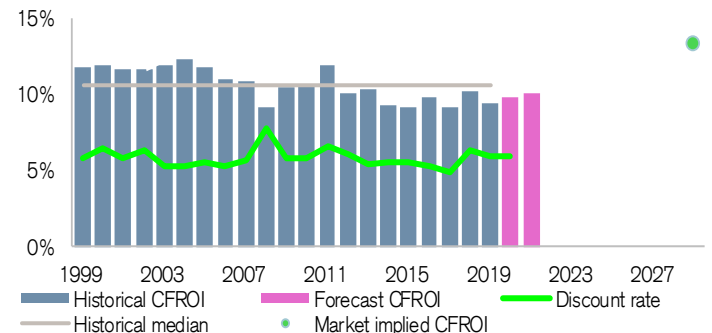
IRM in HOLT®

- WHY IS THIS OUR #1 TOP PICK? We expect the IRM stock to be pressed in the weeks + months to come given deteriorating FCF amid lack of financial flexibility on elevated leverage [~5.9x FY19]. We reiterate Underperform on the IRM stock given ongoing capital-intensive pivot towards highly competitive data centers [~6% of revenue + ~9% of EBITDA], away from core document storage that continues to be impacted by organic growth headwinds amid underwhelming FCF + execution risk from the \$240m Project Summit restructuring over the next two years.
- INVESTMENT THESIS: While we understand the pricing strategy [organic] and data center pivot [inorganic], we believe organic growth will ultimately decelerate [as evidenced by the Q219 guide cut] and potentially decline longer term in the core storage business as organic net unit volume declines, notably in North America. Organic growth [LDD] in data centers is more than offset by decelerating growth in core storage [NA ~50% revenue/~65% EBITDA] and slower growth coupled with less financial flexibility owing to leverage [~5.9x], and growing capital needs [approximately \$500m+ 20E/21E] offer less attractive risk/reward, in our view.
- CATALYSTS: H1 2021 earnings [i.e. dividend or guidance cut].
- DEBATE / PUSHBACK: Iron Mountain is the leader in document storage + retention, with a solid management team. That said, we believe accelerating organic unit volume declines in NA amid increasing M+A and investments in data centers that reduce financial flexibility, given the company's debt [~5.9x] + large dividend funding needs [~\$500m 2020E/21E]. The pushback we believe will be that pricing + data center growth are not enough to offset core business deceleration.
- OUR VIEW: Slowing growth, uneven margins, and flat (at best) EBITDA combine with a highly levered balance sheet and underfunded dividend. We see these fundamental factors and a stretched valuation skewing risk/reward to the downside.
- VALUATION: \$18 TP equates to ~9x 2021 EV/EBITDA. Risks to our thesis include further volume declines, high leverage and elevated capex levels & customer acquisition costs.
- LATEST RESEARCH REPORTS:
 - [Beyond the Pandemic: COVID-19 structural changes](#)
 - [Slower organic underscores secular challenge](#)

NA Net Unit Volume Declines Continue to Accelerate



IRM in HOLT®



HOLT®: Market expectations imply a sharp increase in returns on capital from forecast and historical levels.

Source: Company data, Credit Suisse HOLT

TMT

Communications Infrastructure

Radius Global Infrastructure (RADI)

Sami Badri

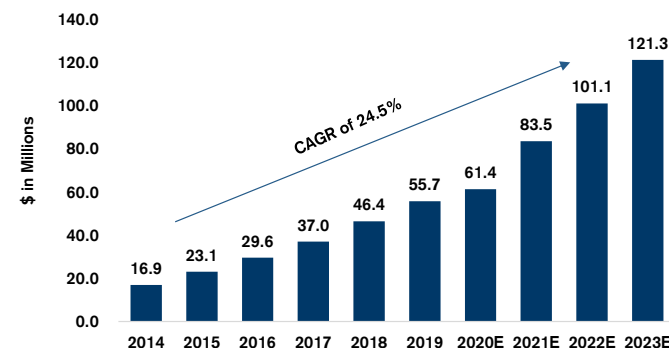
ahmedsami.badri@credit-suisse.com
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RADI – Rating: Outperform | Target Price: \$19 | Market Cap: \$746M | Current Price: \$12.76

[RADI in HOLT®](#)

- WHY IS THIS OUR #1 TOP PICK? Unlike traditional TowerCos, RADI owns and operates the land underneath wireless sites (land/rooftops) and it has only addressed a tiny portion of its TAM. We forecast RADI to grow revenues at ~21% CAGR through 2023E on a normalized basis, as it deftly acquires new sites using its proprietary land interest database.
- INVESTMENT THESIS:** We maintain our constructive outlook on RADI for the following key reasons: (1) RADI has a vast TAM opportunity to consolidate land interests; (2) its proprietary database of land interests; (3) land owners increasingly look to sell their lands amid challenging economic dynamics; and (4) 5G should further bolster RADI's business opportunity as connectivity density rises, increasing the number of TAM site and lease interests.
- CATALYSTS:** RADI's discount compared to TowerCos (14x vs 23x EV/Tower Cash Flows) is another key factor driving our bullish view. RADI's net growth rate is fairly similar to TowerCos after considering churn and maintenance capex (RADI: 2.7%-3.1%; TowerCos: 1.5%-6.0%). Bearing in mind the long-dated lease terms and visibility/reliability of cash flows, we believe that the large gap in multiples between RADI and TowerCos is unwarranted and that RADI is likely to trade higher as its multiple increases over time to reflect its lower risk profile, especially if organic US leasing growth slows for TowerCos.
- DEBATE / PUSHBACK:** Investors have questioned (1) why the TowerCos don't just buy the land under sites and (2) why RADI should be valued partially on a ground cash flow (gross margin) multiple.
- OUR VIEW:** Land owned under tower sites is not owned by one or two large owners, but by thousands of individuals around the world, muting the power of TowerCos' scaled reach. On its EV/GCF valuation, we note that if RADI stopped acquiring sites, and therefore trimmed its employee count (origination team), it would essentially become a yieldCo with minimal costs (adj. EBITDA margin likely upwards of 90%). We believe that RADI, unlike TowerCos can be viewed on this basis given TowerCos maintenance capex needed to sustain the business.
- VALUATION:** We value RADI based on the average of two methods: (1) EV/GCF multiple of 25x our 2022E GCF of \$100.4M; and (2) EV/EBITDA multiple of 25x our 2022E adjusted EBITDA of \$34.7M. Risks to our rating and valuation may include high leverage, volatile FX rates, geopolitical instability, and increased site decommissions & competition.
- LATEST RESEARCH REPORTS:**
 - [RADI: Radiating Growth in a 5G World with Superior Cash Flow Visibility: Initiating at O/P](#)
 - [RADI: vNDR Takeaways: Radiating Positivity Following Investor Meetings](#)
 - [2021 Outlook: The Cloud Has Four Walls](#)

Robust Rev. Growth via Steady Site Acquisition



RADI in HOLT®

Not in HOLT,
started trading in
Oct 2020

HOLT®: SWCH's returns on capital have been below cost of capital in the last three years. Consensus forecasts and market expectations suggest an improvement in returns from current levels.

Source: Company Suisse estimates, *Primarily Inorganic Growth, Credit Suisse HOLT

TMT

Consumer Internet

Amazon (AMZN.OQ)

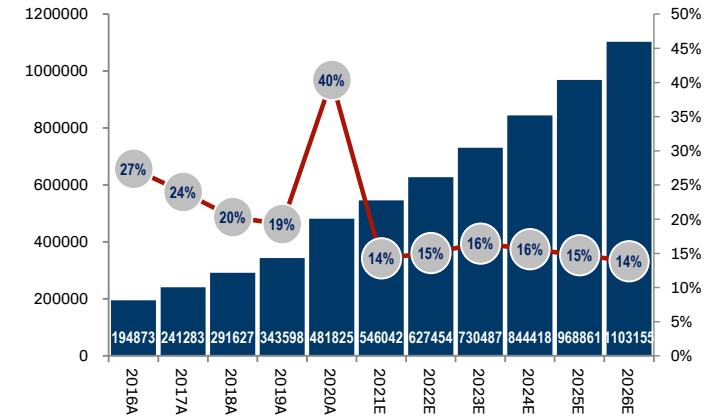
Stephen Ju

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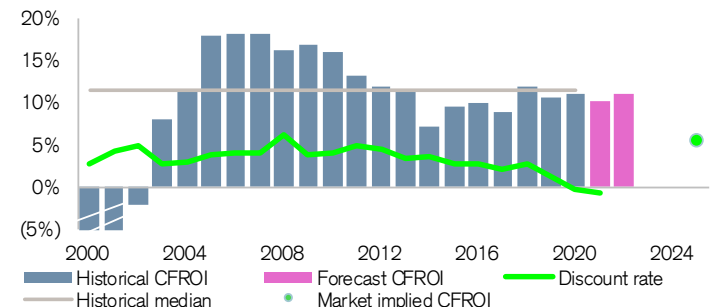
AMZN – Rating: Outperform | Target Price: \$3,940 | Market Cap: \$1,584B | Current Price: \$3,146 **AMZN in HOLT®**

- WHY IS THIS OUR #1 TOP PICK? E-commerce operators are broadly suggesting that newly onboarded and returning users are not only purchasing lower ASP items but also at a faster velocity. This suggests that willingness to order online is consequently becoming more every day versus every now and then.
- INVESTMENT THESIS: Our Outperform investment thesis for AMZN is based on the following: 1) e-commerce segment operating margin expansion as it grows into its larger infrastructure, 2) optionality for faster than-expected FCF growth vis-à-vis its advertising segment, and 3) upward bias to AWS revenue forecasts and likely more moderate deceleration path as suggested by ongoing capital intensity in the business.
- CATALYSTS: We believe that we will find out more about the rate of GMV deceleration at the latest by 1Q21 earnings reports as companies offer 2Q21 guidance, but it may be sooner (by March) as credit card and other third-party datasets offer earlier indications/signals as we begin to lap the impact from the pandemic.
- DEBATE / PUSHBACK: We believe that current investor expectations are that those sectors that saw cyclical headwinds during 2020 (advertising and more generally travel and ride share) should accelerate during 2021, and those sectors that saw a cyclical tailwind in 2020 (e-commerce and more generally online games and food delivery) should decelerate.
- OUR VIEW: Thematic data points we have gathered throughout 2020 – between the period of ~66 days required for a change in behavior to become habit, and declining ASPs in tandem with rising purchase frequency – collectively point to consumers globally becoming increasingly comfortable purchasing online every day as opposed to every now and then. These factors amount to the following near- to long-term potential implications for Amazon: 1) upside to GMV estimates in 2021 and beyond and 2) moderating customer acquisition/retention costs as greater purchase frequency reinforces Amazon/Prime brand.
- VALUATION: We use the discounted cash flow (DCF) method to calculate our \$3940 target price for Amazon. Our five-year DCF uses a 3% terminal growth rate and a market-implied discount rate derived by discounting our unlevered FCF (free cash flow) estimates from 2021 through 2026 to arrive at the stock's current trading price. We then applied this discount rate to our 2021-2026 unlevered free cash flow estimates for AMZN. Risks include: 1) Higher-than-expected capital intensity for either e-commerce or AWS and 2) extended duration of COVID-19 impact.
- LATEST RESEARCH REPORTS:
[Internet 2021 Outlook: We Have All Been Reprogrammed](#)

Total GMV (ex Shipping/Prime) and FXN YOY Growth



AMZN in HOLT®



HOLT®: Consensus forecasts returns on capital in line with 2020 levels. The market is implying a decline from current levels, not giving credit to the company's potential.

Source: Company data, Credit Suisse estimates, Credit Suisse HOLT

TMT

IT Hardware

International Business Machines (IBM.N)

Matt Cabral

matthew.cabral@credit-suisse.com
(415) 249-7929

IBM – Rating: Outperform | Target Price: \$160 | Market Cap: \$107.89B | Current Price: \$120.74 [IBM in HOLT®](#)

- WHY IS THIS OUR #1 TOP PICK? Against a tough macro that likely lingers in 1H21, we like management's renewed focus on long-term growth (vs. near-term profit), aided by the planned spin-off of its Managed Infrastructure Services (MIS business), that we believe positions IBM to emerge stronger post-COVID as they aggressively pivot toward hybrid cloud.
- INVESTMENT THESIS: IBM + Red Hat remains an underappreciated opportunity in the rapid push toward hybrid cloud, bringing together the platform (RHT/OpenShift), incumbency (Cloud & Data Platforms/CloudPaks), and expertise (GBS) to help clients modernize and migrate the ~75% of legacy/custom applications stuck on-prem. We've seen signs of early momentum post the integration of Red Hat in both C&DP SW and GBS signings, despite a tough Enterprise backdrop, and believe the planned spin-off of MIS and management's commitment to increase investment (both organic and inorganic) sharpens the hybrid focus and creates an opportunity for a return to sustained revenue driven EPS growth ahead. Separating out MIS, we forecast "core" IBM revenue will grow at a 4.5% CAGR over CY20-22 (adj. for impact of RHT deferred write-downs).
- CATALYSTS: 1Q Earnings, RHT sales/order growth + synergies within IBM's core Cloud & Data Platforms and GBS businesses, MIS spin-off.
- DEBATE / PUSHBACK: The pushback remains that IBM is a no-growth business with an over-reliance on low-quality drivers and legacy end markets; Red Hat's contribution is too small to move the needle relative to the price; the MIS business faces secular headwinds post-spin; slower debt repayment prolongs a return to share repurchases; and, debate on the re-rating potential for "core" IBM post-spin.
- OUR VIEW: Though there is meaningful work to be done NT in turning around IBM, given outsized on-prem exposure in a tough macro, we remain positive on the company's LT opportunity in an increasingly hybrid-first world. We believe IBM is currently undervalued, and that hybrid focus and the spin-off of the MIS business will ease the path to sustained growth, which is necessary for a re-rating of the stock.
- VALUATION: Our \$160 price target is based on a 50/50 split between 12x multiple applied to our CY22E EPS and our SOTP derived share price of \$167 (reflects 6.5x EV/EBITDA for MIS business and 11x for "core" IBM). Risks include execution on the integration of Red Hat, spin-off execution, IT spending growth, COVID-19, interest rates, and FX.
- LATEST RESEARCH REPORTS:
 - [4Q20 Recap: A tough print amid on-prem weakness; hybrid thesis remains key ahead](#)
 - [Digging in on the key investor debates following IBM's plans to spin-off MIS](#)
 - [Spin-off sharpens the focus and accelerates the hybrid cloud thesis; introducing SOTP](#)
 - [IBM: A Landmark Shift on the Journey to Hybrid](#)

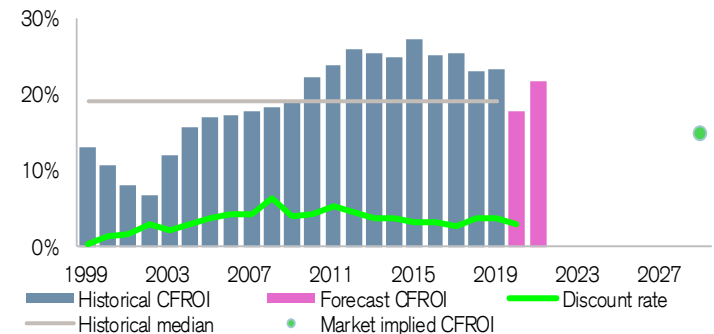
Our SOTP analysis implies a value of \$167/sh

CS SOTP valuation; "core" IBM and MIS ("NewCo")

	CY22E EBITDA	Multiple	Enterprise Value
Core IBM	\$17,463	11x	\$199,956
NewCo	\$1,097	6.5x	\$7,128
Consolidated IBM	\$18,560	11.2x	\$207,085
less: Debt (CSe 4Q21)			(\$55,538)
plus: Cash & Eq (CSe 4Q21)			\$6,153
less: Split cash cost			\$0
less: Pension/other			(\$6,454)
Equity Value			\$151,246

Equity Value per Share	\$167
Shares outstanding (CSe 4Q21; mn)	904

IBM in HOLT®



HOLT®: IBM is forecasted for CFROI levels well above 17% over the next few years. However, market implied CFROI suggest a sharp decline in profitability in the future.

Source: Company data, Credit Suisse estimates, Credit Suisse HOLT

TMT

Semiconductors & Devices

Micron Technology Inc. (MU.OQ)

John Pitzer

John.pitzer@credit-suisse.com

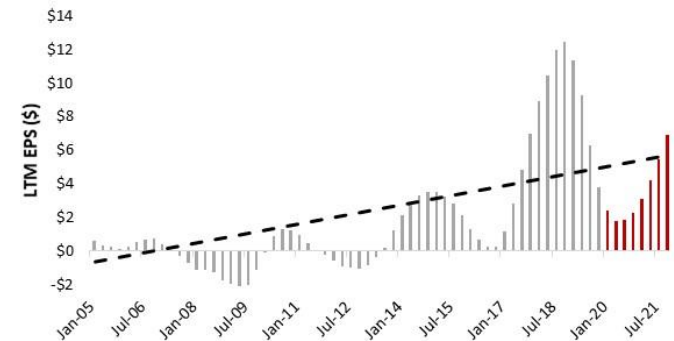
(212) 538-4610

MU – Rating: Outperform | Target Price: \$110 | Market Cap: \$106B | Current Price: \$94.76

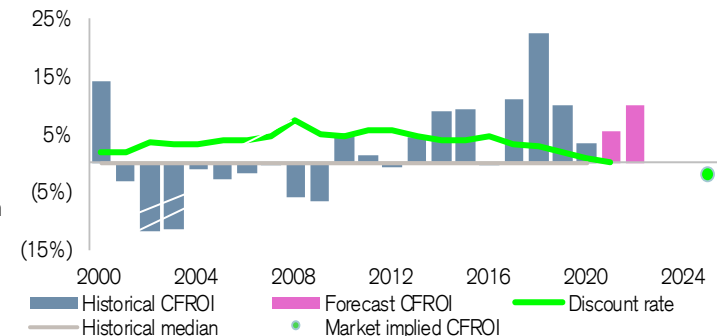
[MU in HOLT®](#)

- WHY IS THIS OUR #1 TOP PICK? We expect Micron to be the largest beneficiary of our overall thesis – Accelerating compute TAM driven by the decreased cost and increased importance of analytics.
- INVESTMENT THESIS: Flattening cost curves and new memory intensive applications like Cloud, AI, and 5G should support significantly higher peak, trough and thru-cycle returns.
- CATALYSTS: Memory began under shipping demand in 2H20 and CY21 will represent the first year of positive ASP cycle since 3Q16 – which is likely to extend in CY22 and provide an EPS cycle that rivals CY18. DRAM requirements in 5G phones significantly higher than 4G.
- DEBATE / PUSHBACK: The best concern/retort to our thesis is the impact that better pricing might have on LT bit growth – i.e., price elasticity has been a key driver of memory content growth and when memory pricing increases OEMs are likely to respond by de-spec'ing as they have done before in the PC and handset markets. We see increasing consolidation in the NAND market, though China entrants still remain a risk for oversupply.
- OUR VIEW: As demand shifts toward enterprise (toward data centers), minimum memory requirements increase and customers become less price sensitive.
- VALUATION: Our \$110 PT is based on ~7x our expected upcoming peak EPS of ~\$15 compared to the average peak price/peak earnings of 8-9x since 2005. Additionally, our \$110 is ~2.5x P/B FTM – a top quartile average – and we see support at ~1.2 P/B or \$40, while MU maintains positive EBITDA. Risks include global macroeconomic uncertainty and accelerating supply growth from Chinese producers.
- LATEST RESEARCH REPORTS:
 - [MU: DRAM Off to a Great Start](#)
 - [MU: FQ1 Preview – Here's to Better Memories in CY21](#)
 - [MU: Cyclical Bottoms Are Usually A Little Messy](#)
 - [MU: F4Q/F1Q Modestly BELOW, But Likely the Last Reset](#)
 - [MU: Lower Estimates on Weaker 2H, CY21 Recovery Still On Track](#)

We expect higher peaks and troughs to continue



MU in HOLT®



HOLT®: MU's returns on capital declined in 2020 from the peak in 2018 however they remained above cost of capital, yet the market seems pessimistic as it is pricing negative profitability in the future.

Source: Company data, Credit Suisse estimates, Credit Suisse HOLT

TMT Software Intuit Inc. (INTU.OQ)

Brad Zelnick

brad.zelnick@credit-suisse.com

(212) 325-6118

INTU – Rating: Outperform | Target Price: \$460 | Market Cap: \$111.29B | Current Price: \$406.41 **INTU in HOLT®**

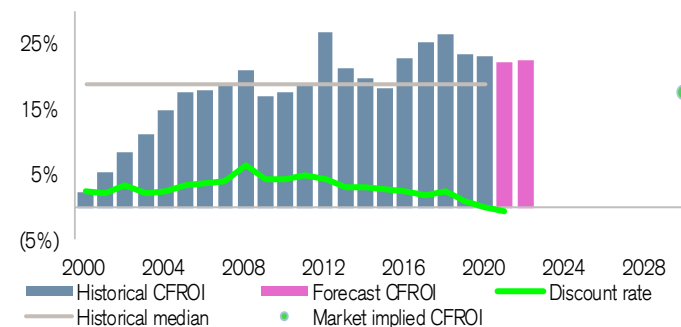
- **WHY IS THIS OUR #1 TOP PICK?** Intuit is well known for offering defensive growth characteristics - if there are few reliable things in life, they are Death, Taxes and QuickBooks. We see a unique set of circumstances at Intuit that are accompanying its evolution from a product company (TurboTax and QuickBooks) to a broader AI-Driven Expert Platform company - helping to expand their addressable markets and provide more intelligent offerings for customers at better price points. We see lots of innovation, potential upside to estimates in the near and medium term, and a mispriced option with Credit Karma.
- **INVESTMENT THESIS:** TurboTax Live (TTL) is a transformational opportunity for the category and remains in its early days. TTL has been a strong acquisition funnel and a significant upsell opportunity, with increased awareness, further price optimization, and a full service SKU. QBO growth drivers remain plentiful and Credit Karma revitalizes the Consumer/fintech angle. The product to platform evolution benefits reach, pricing, and leverage, and will likely drive mid-teens growth with steady margin expansion. We also think the worst of SMB distress is behind us, with strong new business creation skewed to digital natives and offsetting failures. We are enthused by the transformative Credit Karma deal despite modest dilution as we think opportunities remain underappreciated by investors around: i) Cross sell potential for TurboTax; ii) Personalized financial product recommendations (personal/auto) from the marriage of verified income tax data + credit history/information; iii) Additional fintech products such as early payroll, high yield checking or personalized insights and advice.
- **CATALYSTS:** F2Q21 Earnings. Datapoints throughout FY21 Consumer Tax season.
- **DEBATE / PUSHBACK:** Growth adjusted valuation vs other software peers. SMB distress may hurt recovery path. Potential political overhang/impact from Consumer Tax related legislation.
- **OUR VIEW:** We believe Intuit will sustain growth for longer in both SMB and Consumer Tax segments, with accompanying margin expansion through positive mix shift and strong operating discipline. We believe the current valuation does not sufficiently reflect the durability of growth in the medium term.
- **VALUATION:** Our \$460 TP is based on our DCF analysis and implies 42.3x FY22 FCF. Our forecast assumes continued growth of QBO, share gains in the Consumer Tax business and the continued progress of its platform. Risks include competition, increased government regulation, and slower-than-expected traction of online attach services.
- **LATEST RESEARCH REPORTS:**
 - [Credit Karma Deal Closes: Lots of work ahead, but the rewards are attractive](#)
 - [Credit Karma Fast Facts](#)
 - [F2Q21 Preview: Taxes for “Tendies” – Constructive on Tax Season](#)

Product to Platform helps reach, pricing, leverage

ARPC: Improved monetization over time

	FY19 ARPC	FY20 ARPC	FY21-FY23 Expected
QBO US	\$553	\$651	INCREASE
QBO International	\$116	\$144	INCREASE
QBO SE	\$94	\$99	FLAT
QBO Online WW	\$347	\$398	INCREASE
QB Desktop	\$623	\$677	INCREASE
Consumer Tax (Per Return)	\$62	\$63	INCREASE
ProConnect (avg. Order per customer)	\$3,836	\$4,083	SLIGHT INCREASE

INTU in HOLT®



HOLT®: INTU has earned high and stable returns on capital historically, while the market is pricing a slight decline in profitability to below historical median levels.

Source: Company data, Credit Suisse estimates, Credit Suisse HOLT

TMT

Telecom & Media

Comcast Corp. (CMCSA.OQ)

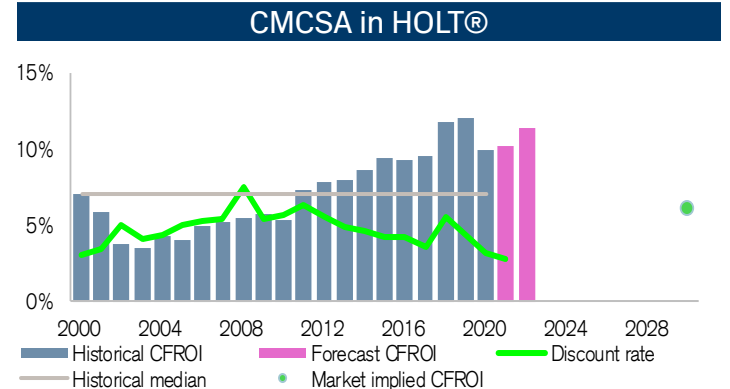
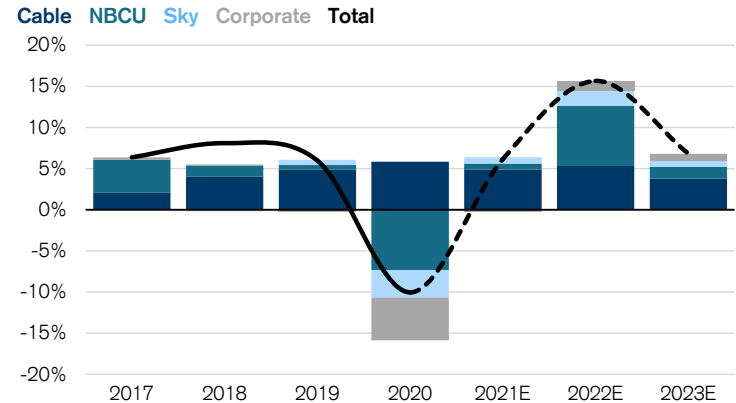
Doug Mitchelson
doug.mitchelson@credit-suisse.com
(212) 325-7542

CMCSA – Rating: Outperform | Target Price: \$61 | Market Cap: \$29.12B | Current Price: \$54.45 [CMCSA in HOLT®](#)

- **WHY IS THIS OUR #1 TOP PICK?** Comcast has successfully differentiated its broadband offering from peers as social distancing has elevated broadband, driving stronger-for-longer broadband customer and cable EBITDA growth. This is amplified by NBCU and Sky reopening impacts for 2021 and 2022, and the 2H21 return of buybacks.
- **INVESTMENT THESIS:** Comcast offers a strong organic and recovery growth outlook, returning to target leverage allows buybacks to restart, and its attractive valuation gives room for multiple expansion, suggesting 50%+ 3-year upside to us.
- **CATALYSTS:** Foremost catalyst is restart of buybacks (we expect 3Q21). C-Band results and any wireless product launches. Olympics, new park openings, and return of theatrical exhibition. Macro/vaccine catalysts may clear ad/parks overhangs.
- **DEBATE / PUSHBACK:** Cable Broadband competition and regulation, long-term wireless strategy, media ownership (creating conglomerate discount and M&A concerns), and timing/level of film/parks recoveries.
- **OUR VIEW:** We expect regulators to focus on vouchers/subsidies for consumers to rapidly close the digital divide rather than price regulations on operators. Comcast has made clear that its wireless build is capital-light. Upcoming World Cup/Olympics/Super Bowl combo means that NBC has the biggest events on TV.
- **VALUATION:** Comcast trades at 10x EV/'21 EBITDA and 8.5x '22, or 18x '21 P/E and 14x '22. Our forecast to 2025 and YE21 DCF give a \$61 target price, for 17% upside. Risks: adverse regulation, lingering pandemic impacts on advertising/parks/film, an unexpected pivot to a more expensive streaming strategy.
- **LATEST RESEARCH REPORTS:**
[CMCSA: Trends Remain Favorable - Raising 2021 Cable Estimates](#)
[CMCSA: Broadband Still Stronger-for-Longer - 4Q20 Well Ahead \(and 2H21 Buybacks\)](#)
[CMCSA 4Q20 Wrap: Comcast Outlook Supports the Bull Case](#)

Durable broadband EBITDA growth boosted by NBCU/Sky recovery

Comcast EBITDA Growth Contribution



HOLT®: CMCSA has had an outstanding track record of improving returns on capital historically. Current market expectations imply a significant decline in returns in the future, which we believe underserved.

Source: Company data, Credit Suisse estimates, Credit Suisse HOLT

TMT

Telecom & Networking Equipment

Motorola Solutions (MSI.N)

Sami Badri

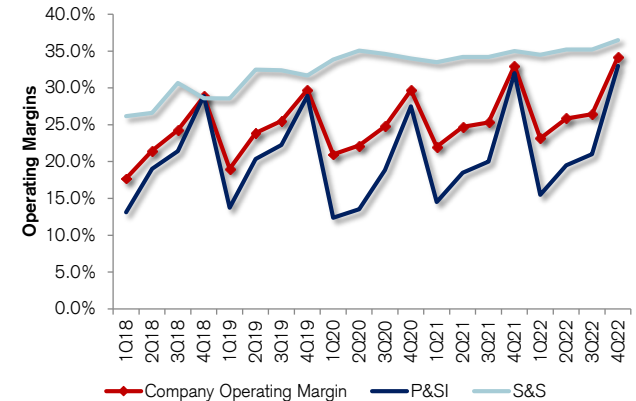
ahmedsami.badri@credit-suisse.com
(212) 538-1727

MSI – Rating: Outperform | Target Price: \$198 | Market Cap: \$30.8B | Current Price: \$182.45

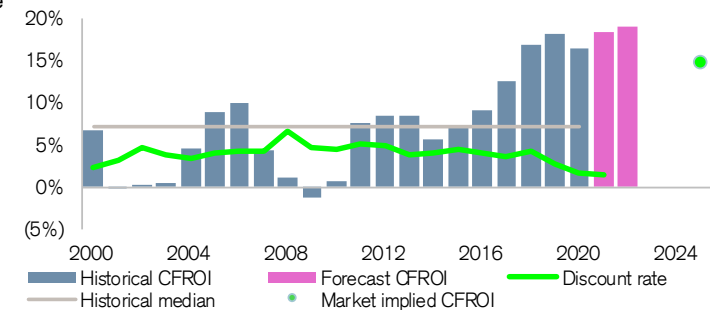
MSI in HOLT®

- WHY IS THIS OUR #1 TOP PICK? We find strong conviction in MSI's business model, pipeline, adjacent synergistic market opportunities. We also expect strong operating leverage, EPS growth, and FCF growth ahead of consensus expectations, positioning the company well for the year to come considering the APX NEXT radio refresh, Avigilon business optimization, and solid organic core business performance focused on Command Center opportunities. Despite COVID-19 headwinds, we are positive on MSI for its strong fundamentals and LT growth prospects. We believe our valuation multiple assigned is conservative given its (1) defensible business (i.e. public safety customers), (2) mature install base and replacement unit business, and (3) increasing recurring revenue streams
- INVESTMENT THESIS: MSI is one of very few providers that can offer a true End-to-End solution for customers from first responder radios to full command center communications in one aggregated and auditable system. We see MSI as the leading provider and highly irreplaceable given it is the only true large scale U.S. based end-to-end provider.
- CATALYSTS: Catalysts include the recent NDAA Interim Policy, reducing the capacity of MSI's competitors and potential alternative solutions available in the market, MSI's newly released APX NEXT radios drawing in more customers, the growth of FirstNet/LTE/5G which we view not as risks to MSI's LMR business but are complimentary, and the increasing importance of the command center underpinning MSI's End-to-End company strategy.
- DEBATE / PUSHBACK: Possible pushbacks to our thesis on MSI include disruptive technology and macroeconomic risks, particularly U.S.-China trade tension as well as U.S. exposure. Additionally, we see potential underinvestment from continued cost reduction initiatives and potential weakness in government spend on public safety as other risks or areas of debate for the stock. Recent business shut-downs due to COVID-19 isolation measures, could impact the demand for commercial product segments.
- OUR VIEW: MSI is uniquely positioned to offer a complete End-to-End product, software and services suite for its First-Responder customer base that consists of a wide range of customers in various industries. Recent acquisitions, including VaaS and WatchGuard, will keep adding to the overall Motorola solutions suite that is monetized effectively.
- VALUATION: We value MSI based on a P/FY2 EPS multiple of 20.5x our FY22 EPS of \$9.66, arriving at a target price of \$198. Risks include disruptive technology and macroeconomic risks, particularly U.S.-China trade tension as well as U.S. exposure.
- LATEST RESEARCH REPORTS:
 - [MSI: 4Q20/2020 Results Beat -2021 Guide Light, but We Believe Mgmt. Is Being Conservative; Reiterate Outperform and Top Pick](#)
 - [MSI: HQ Meetings: Mgmt. Tone Confident & Positive: Introducing FY22 Estimates, Increasing Target Price to \\$202](#)
 - [MSI: State Legislature/Revenue Updates In-line With Expectations: FirstNet Fears Remain Overblown: Callyo Acquisition Strengthens MSI](#)
 - [MSI: Command Center Software to Drive MSI's LT Growth: Contract Sizes Increasing: MSI Revenue Outlook Concerns Remain Overblown](#)

Margins Continue to Improve in Coming Years



MSI in HOLT®



HOLT®: MSI's has shown improvement in returns on capital over the past 6 years. Consensus forecasts returns on capital to reach all time highs. Market expectations are conservative and don't seem to appreciate MSI's strong fundamentals and LT growth prospects.

Source: Company data, Credit Suisse estimates, Credit Suisse HOLT



Appendix

Summary of Top Ideas

Sector / Industry	Analyst	Top Outperform			Top Underperform	Removals
		#1	#2	#3		
BASIC MATERIALS						
Chemicals & Ag Sciences	Chris Parkinson	ASH	MOS	FMC	X	
Metals & Mining	Curt Woodworth	TECK	ARNC	AA		
Packaging	Curt Woodworth	CCK				
CONSUMER						
Building Products	Adam Baumgarten	MAS 	CSL 	BLD	WHR	CSL
Gaming, Lodging, Leisure	Ben Chaiken	VAC	MTN	FUN	WSM	TJX
Homebuilding	Adam Baumgarten	DHI	KBH	MTH		
Household Products & Beverages	Kaumil Gajrawala	MNST	STZ	REYN		
Packaged Food	Rob Moskow	HSY	MDLZ	BGS		
Restaurants	Lauren Silberman	CMG	PZZA	DRI		
Retail: Hardlines	Seth Sigman	AAP	TGT	HD		
Retail: Softlines & Global Brands	Michael Binetti	TPR 	BURL	VFC		
ENERGY / UTILITIES						
Alternative Energy	Michael Weinstein / Maheep Mandloi	NEP	RUN		NGL	
E&Ps Mid Cap	Bill Janela	EOG				
Midstream & MLPs	Spiro Dounis	TRGP	LNG	MPLX		
Oilfield Services & Equipment	Jacob Lundberg	CHX	NOV	WHD		
Oil & Gas Royalty Minerals	Chris Baker	VNOM				
Utilities	Michael Weinstein	VST				

Summary of Top Ideas

Sector / Industry	Analyst	Top Outperform			Top Underperform	Removals
		#1	#2	#3		
FINANCIALS						
Asset Managers / Retail Brokers	Craig Siegenthaler	APO	IBKR	BLK		
Banks	Susan Katzke	JPM	BAC	GS		
Exchanges & Market Structure	Ari Ghosh	TW	NDAQ	ICE		
Insurance – Life	Andrew Kligerman	VOYA	EQH	AMP		
Insurance – P&C / Brokers	Mike Zaremski	CB	MMC	AFG		
Mortgage Finance	Doug Harter	PFSI	NRZ			
Payments, Processors, & FinTech	Tim Chiodo	GPN				
Specialty Finance	Moshe Orenbuch	SYF	V	SLM	AXP	
HEALTHCARE						
Biotechnology – Large Cap	Evan Seigerman	REGN	MGNX	BIIB		CHNG
Biotechnology – SMID Cap	Martin Auster	INSM	UTHR	XLRN		
Healthcare Facilities	A.J. Rice	HCA	AMED			
Healthcare Technology & Distribution	Jailendra Singh	TDOC	ACCD	SLQT		
Life Science Tools & Diagnostics	Erin Wright	IQV	ZTS	ALGN		
Managed Care	A.J. Rice	UNH	CI			
Medical Supplies & Devices	Matt Miksic	EW	SYK	GMED		

➕ New Top Pick

▲ Stock Moved Up in Rank

▼ Stock Moved Down in Rank

Source: Credit Suisse Research

Summary of Top Ideas

Sector / Industry	Analyst	Top Outperform			Top Underperform	Removals
		#1	#2	#3		
INDUSTRIALS						
Aerospace & Defense	Rob Spingarn	SPR	NOC		CHRW	FTV
Airfreight & Ground Transport	Allison Landry	UPS	NSC	FDX		
Airlines	Joe Caiado	LUV	DAL			
Autos & Auto Parts	Dan Levy	APTV	GM			
Electrical Equipment & Multi-Industry	John Walsh	EMR +	FTV ▼	JCI		
Engineering & Construction	Jamie Cook	MTZ	PWR			
Machinery	Jamie Cook	CAT	DE			
SERVICES						
Business Services	Kevin McVeigh	MCO	EFX	ESC	IRM	
TMT						
Communication Infrastructure	Sami Badri	RADI +				SCWH
Consumer Internet	Stephen Ju	AMZN +	GOOGL ▼	FB		GOOGL
IT Hardware	Matt Cabral	IBM	NTAP	CDW		
Semiconductors & Devices	John Pitzer	MU	ADI	NXPI		
Software	Brad Zelnick	INTU	ZI	ORCL		
Telecom & Media	Doug Mitchelson	CMCSA +	CHTR ▼	ATUS		CHTR
Telecom & Networking Equipment	Sami Badri	MSI				

+ New Top Pick

▲ Stock Moved Up in Rank

▼ Stock Moved Down in Rank

Source: Credit Suisse Research

Top Picks That Rank in Top 25% in HOLT Scorecard

Company Name	Ticker	Quality	Momentum	Valuation
BASIC MATERIALS				
Ashland Global Holdings Inc	ASH		✓	
Teck Resources Ltd	TECK		✓	✓
United States Steel Corp	X		✓	
Crown Holdings Inc	CCK	✓		
CONSUMER				
Chipotle Mexican Grill Inc	CMG		✓	
Hershey Co	HSY			
Amazon.Com Inc	AMZN			
Marriott Vacations Worldwide	VAC			
Advance Auto Parts Inc	AAP			✓
Williams-Sonoma Inc	WSM			
Monster Beverage Corp	MNST	✓	✓	
Tapestry Inc	TPR		✓	
Whirlpool Corp	WHR			✓
Masco Corp	MAS	✓	✓	✓
D R Horton Inc	DHI		✓	✓
ENERGY				
Targa Resources Corp	TRGP			
Eog Resources Inc	EOG		✓	✓
Vistra Corp	VST		✓	✓
Apergy Corp	APY	✓		
FINANCIALS				
Apollo Global Mgmt Inc	APO			
Jpmorgan Chase & Co	JPM	✓		
Voya Financial Inc	VOYA			
Chubb Ltd	CB			
Pennymac Financial Services	PFSI	✓	✓	✓
Global Payments Inc	GPN	✓		
Western Union Co	WU	✓		✓
Synchrony Financial	SYF		✓	
American Express Co	AXP			
Tradeweb Markets Inc	TW			

Company Name	Ticker	Quality	Momentum	Valuation
HEALTHCARE				
Regeneron Pharmaceuticals	REGN	✓	✓	✓
Hca Healthcare Inc	HCA			✓
Insmid Inc	INSM			
Unitedhealth Group Inc	UNH	✓		✓
Edwards Lifesciences Corp	EW			
Teladoc Health Inc	TDOC			
Iqvia Holdings Inc	IQV	✓		
INDUSTRIALS				
Fortive Corp	FTV	✓		
United Parcel Service Inc	UPS		✓	✓
C H Robinson Worldwide Inc	CHRW	✓		
Deere & Co	DE		✓	✓
Southwest Airlines	LUV			
Mastec Inc	MTZ			
Caterpillar Inc	CAT		✓	
Aptiv Plc	APTIV			
Spirit Aerosystems Holdings	SPR			
Masco Corp	MAS	✓	✓	✓
SERVICES				
Iron Mountain Inc	IRM			
Moody'S Corp	MCO	✓		
TMT				
Intl Business Machines Corp	IBM	✓		✓
Motorola Solutions Inc	MSI			
Comcast Corp	CMCSA			✓
Micron Technology Inc	MU		✓	✓
Intuit Inc	INTU	✓		

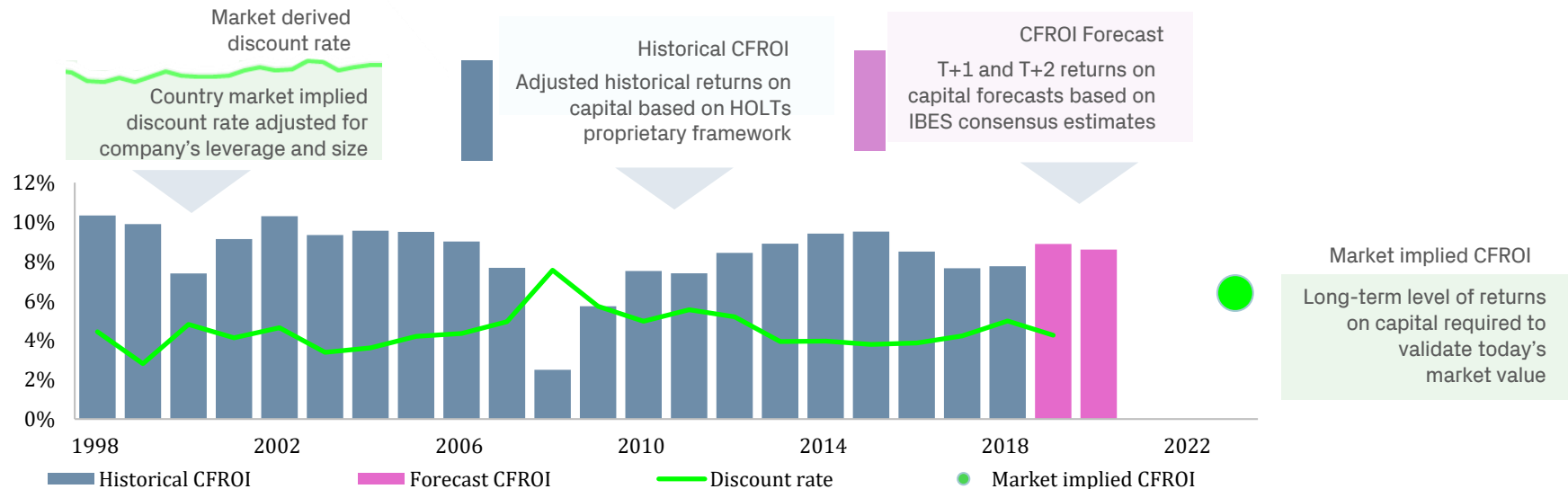
The HOLT scorecard calculates factors scores on a sector relative basis. We indicate above where a company ranks above the 25th percentile in each of the categories: (1) Operational Quality: The HOLT Quality factor assesses the relative attractiveness of a company based on level and variability of CFROI. The factor incorporates the most recently achieved CFROI level, 5-year median CFROI, and the 5-year range in CFROI. (2) Momentum: Revisions to consensus EPS estimates translated into cash flow impact (CFROI) and medium-term share price momentum. (3) Valuation: Based on the HOLT DCF framework and traditional valuation multiples

Source: Credit Suisse HOLT

About HOLT

How to read the HOLT Chart

Click [here](#) to learn more about HOLT.



HOLT's Key Pillars

Market Derived Discount Rate

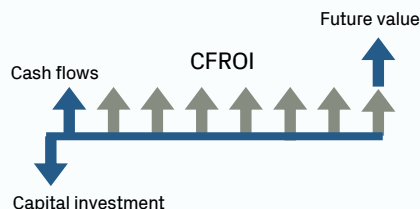
- The HOLT discount rate is forward-looking, derived from observed market valuation, and accurately reflects current investors' risk appetite

$$\text{Total Market Value} = \frac{\text{FCF}}{(1 + \text{DR})}$$

Forecast (down arrow) and Solve (up arrow) are indicated.

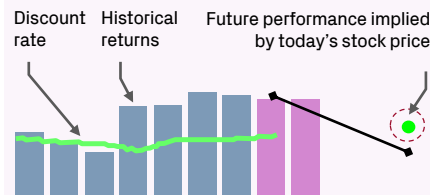
Superior performance metric

- CFROI is a cash-based return on capital metric that improves comparability of corporate performance across companies, geographies and time



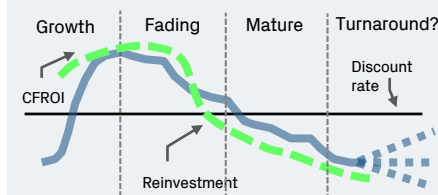
Market-calibrated valuation

- Forecasted FCF calibrated to current market values through observed, market implied discount rate
- Calibrate future CFROI and growth rates embedded in the current stock price



Competitive Lifecycle & fade

- Empirically derived terminal value recognises competitive life-cycle of returns and growth (mean reverting fade concept)
- Cumulative probability approximates the likelihood of achieving future returns given the past return profile



Source: Credit Suisse HOLT

Disclosures

Companies Mentioned (Price as of 01-Mar-2021)

Accelleron Pharma, Inc. (XLRN.OQ, \$140.15)
 Accolade (ACCD.OQ, \$47.08)
 Advance Auto Parts, Inc. (AAPN, \$162.66)
 Alcoa Corporation (AA.N, \$25.99)
 Align Technology, Inc. (ALGN.OQ, \$565.11)
 Alphabet (GOOGL.OQ, \$2069.66)
 Altice USA (ATUS.N, \$33.69)
 Amazon.com Inc. (AMZN.OQ, \$3146.14)
 Amedys (AMED.OQ, \$255.15)
 American Express Co. (AXP.N, \$138.71)
 American Fnl Grp (AFG.N, \$109.24)
 Ameriprise Financial (AMP.N, \$229.08)
 Analog Devices Inc. (ADI.OQ, \$158.59)
 Apollo Global Management LLC (APO.N, \$50.38)
 Aptiv PLC (APT.V.N, \$154.76)
 Arconic (ARCN.N, \$23.99)
 Ashland Global Holdings Inc. (ASH.N, \$85.59)
 B&G Foods Inc - Class A (BGS.N, \$30.79)
 Bank of America Corp. (BAC.N, \$35.79)
 Biogen, Inc. (BIIB.OQ, \$273.24)
 BlackRock (BLK.N, \$719.2)
 Burlington Stores, Inc. (BURL.N, \$263.97)
 CDW Corp (CDW.OQ, \$160.57)
 CH Robinson (CHRW.OQ, \$92.22)
 Cactus, Inc. (WHD.N, \$34.38)
 Carlisle Companies Incorporated (CSLN, \$147.95)
 Caterpillar Inc. (CAT.N, \$219.76)
 Cedar Fair (FUN.N, \$49.66)
 ChampionX (CHX.OQ, \$22.82)
 Change Healthcare (CHNG.OQ, \$23.04)
 Charter Communications (CHTR.OQ, \$619.68)
 Cheniere Energy (LNG.A, \$68.27)
 Chipotle Mexican Grill, Inc. (CMG.N, \$1484.95)
 Chubb Limited (CB.N, \$167.36)
 Cigna Corporation (CI.N, \$214.95)
 Comcast Corp. (CMCSA.OQ, \$54.45)
 Constellation Brands (STZ.N, \$217.75)
 Crown Holdings Inc. (CCK.N, \$98.37)
 D.R. Horton (DHI.N, \$77.64)
 Darden Restaurants (DRI.N, \$139.02)
 Deere & Co. (DE.N, \$359.51)
 Delta Air Lines, Inc. (DAL.N, \$48.06)
 EOG Resources, Inc. (EOG.N, \$64.98)
 Edwards Lifesciences Corp. (EW.N, \$85.77)
 Emerson Electric (EMR.N, \$88.44)
 Equifax (EFX.N, \$166.61)
 Equitable Holdings (EQH.N, \$30.26)
 Escorts Ltd (ESCO.BO, Rs1289.85)
 FMC Corporation (FMC.N, \$106.67)
 Facebook Inc. (FB.OQ, \$264.91)
 FedEx Corporation (FDX.N, \$262.09)
 Fortive (FTV.N, \$67.98)
 General Motors Company (GM.N, \$52.54)
 Global Payments (GPN.N, \$202.18)
 Globus Medical, Inc. (GMED.N, \$62.68)
 Goldman Sachs Group, Inc. (GS.N, \$329.92)
 HCA Healthcare (HCA.N, \$175.46)
 Home Depot (HD.N, \$261.62)
 IQVIA Holdings, Inc. (IQV.N, \$194.39)
 Inmed Incorporated (INSM.OQ, \$37.73)
 Interactive Brokers Group, Inc. (IBKR.OQ, \$76.77)
 Intercontinental Exchange (ICE.N, \$113.74)
 International Business Machines (IBM.N, \$120.74)
 Intuit Inc. (INTU.OQ, \$406.41)
 Iron Mountain Inc. (IRM.N, \$34.73)
 JPMorgan Chase & Co. (JPM.N, \$150.5)
 Johnson Controls Inc. (ICI.N, \$57.18)
 KB Home (KBH.N, \$40.51)
 MPLX LP (MPLX.N, \$24.99)
 Marathon Petroleum Corp. (MPC.N, \$24.99)

Marriott Vacation Worldwide Corporation (VAC.N, \$175.09)
 Marsh & McLennan Companies, Inc. (MMC.N, \$117.46)
 MasTec, Inc. (MTZ.N, \$88.97)
 Masco (MAS.N, \$54.48)
 Meritage Homes (MTH.N, \$84.67)
 Micron Technology Inc. (MU.OQ, \$94.76)
 Mondelez (MDLZ.OQ, \$53.66)
 Monster Beverage Corporation (MNST.OQ, \$87.55)
 Moody's (MCO.N, \$282.47)
 Mosaic Co. (MOS.N, \$30.71)
 Motorola Solutions (MSLN, \$182.45)
 NGL Energy Partners LP (NGL.N, \$2.6)
 NXP Semiconductors N.V. (NXPI.OQ, \$187.3)
 Nasdaq (NDAQ.OQ, \$141.87)
 NetApp (NTAP.OQ, \$65.23)
 New Residential (NRZ.N, \$10.52)
 NextEra Energy Partners (NEP.N, \$75.62)
 Norfolk Southern (NSC.N, \$257.83)
 Northrop Grumman Corporation (NOC.N, \$293.46)
 Nov (NOV.N, \$15.64)
 Oracle Corporation (ORCL.N, \$66.17)
 Papa John's International, Inc. (PZZA.OQ, \$93.79)
 PennyMac Financial Services (PFSI.N, \$61.5)
 Quanta Services (PWR.N, \$85.7)
 Radius Global Infrastructure (RADI.OQ, \$12.76)
 Regeneron Pharmaceuticals, Inc. (REGN.OQ, \$463.05)
 SLM Corp (SLM.OQ, \$15.93)
 Southwest Airlines Co. (LUV.N, \$58.06)
 Spirit AeroSystems (SPR.N, \$46.36)
 Stryker Corp. (SYK.N, \$245.81)
 Sunnova Energy International (NOVA.N, \$47.92)
 Sunrun (RUN.OQ, \$67.15)
 Synchrony Financial (SYFN, \$40.0)
 TC Energy (TRP.OQ, C\$53.82)
 Tapestry, Inc. (TPRN.N, \$41.5)
 Targa Resources Corp (TRGP.N, \$32.06)
 Target Corporation (TGT.N, \$186.09)
 Teck Resources Ltd (TECK.B.TO, C\$26.63)
 Teladoc Health (TDOC.N, \$223.39)
 The Hershey Company (HSY.N, \$145.19)
 The TJX Companies, Inc. (TJX.N, \$67.25)
 TopBuild (BLD.N, \$199.5)
 Tradeweb Markets (TW.OQ, \$73.69)
 United Parcel Service Inc. (UPS.N, \$161.47)
 United States Steel Corp. (X.N, \$18.3)
 United Therapeutics Corp. (UTHR.OQ, \$171.27)
 UnitedHealth Group Inc. (UNH.N, \$334.65)
 VF Corporation (VFC.N, \$81.17)
 Vail Resorts (MTN.N, \$314.22)
 Viper Energy Partners (VNOM.OQ, \$15.89)
 Visa Inc. (V.N, \$216.63)
 Vistra Energy (VST.N, \$17.41)
 Voya Financial (VOYA.N, \$62.18)
 Western Union (WU.N, \$23.68)
 Whirlpool (WHR.N, \$197.7)
 Williams-Sonoma (WSM.N, \$135.44)
 Zoetis (ZTS.N, \$157.69)
 ZoomInfo Technologies (ZI.OQ, \$56.38)

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